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Dear Clients and Friends:

We thank both our new and returning clients for continuing to use us for their tax, consulting, and accounting needs. We value working with each of you. We strive to provide the best professional services to you in a timely manner. We want to let you know how much we appreciate your confidence in us. Thank you so much!

As we approach year end, now is the time for you to review your 2022 and 2023 tax situations and identify opportunities for reducing, deferring, or accelerating your tax obligations. Proper tax planning requires an awareness of what's new and changed from last year. We would like to help you attain your minimum legal tax liability and our office can help you prepare such a strategy.

Several COVID-related tax benefits have expired and are not applicable to 2022 including the stimulus payments. New tables apply for required minimum distributions in 2022 that extend life expectancies and in general result in lower required minimum distributions for 2022 and future years. The Inflation Reduction Act made a variety of changes that impact 2022 taxes. Many of the green energy home and vehicle credits do not take effect until 2023 and you must have a tax liability to benefit from these credits.

There are a handful of provisions that expired at the end of 2021 that Congress could extend in a lame duck session. Congress tends to wait until late December to make tax law changes that affect the current year. There are several provisions that each party wants to implement. There could be negotiations that result in both parties achieving some of their desired goals. Among other provisions, Democrats want to increase the child tax credit and Republicans have some business provisions they would like implemented.

**Special note:** For 2023, inflation adjustments will increase the standard deduction and tax brackets by about 7%.

#### **New Tax Provisions**

Below are new provisions affecting the most taxpayers. If you are aware of other provisions that may affect you, please contact us.

- Child tax credit – The per child credit amount has reverted to \$2,000 per child for 2022. The qualifying age has returned to those that have not turned 17 by the end of the year. The credit begins to phase-out once your adjusted gross income exceeds \$400,000 for joint return filers (\$200,000 for other filers). Those dependents age 17 and older qualify for a \$500 credit.
- Dependent care credit - Payments made to qualify for the credit have reverted to \$3,000 per child with a \$6,000 maximum per family. Most families will qualify for a 20% credit. The maximum credit percentage is 35% for low-income families.
- Contributions to an employee flexible spending account for dependent care have reverted to a maximum of \$5,000 for joint return filers (the contributions reduce taxable income).
- The Earned Income Credit qualifications generally have reverted back to the pre-2020 limitations.
- Educator expense maximum deduction has increased to \$300.
- Taxpayers that take the standard deduction cannot deduct charitable contributions.
- For those that itemize, the limitation on charitable contributions has reverted to 60% of adjusted gross income.
- Business meals provided by a restaurant are 100% deductible in 2022. They are 50% deductible beginning in 2023.
- Casualty losses have been extremely limited in recent years. However, if you have a loss in a federally declared disaster area (e.g., a Florida residence) where you did not have adequate insurance coverage, you may qualify for an itemized deduction.
- Home energy credits have not changed for 2022 with a lifetime \$500 limit. However, expanded credits are available beginning in 2023 for 30% of the costs up to \$1,200 annually spread over several types of improvements. Substantial solar and wind installations continue to qualify for a 30% credit. These credits are not beneficial unless you have a tax liability.
- The IRS requires third-party payment settlement networks (e.g., PayPal and Venmo) to issue Form 1099-K if you are paid over \$600 (previously \$20,000) during the year for goods or services, regardless of the number of transactions.
- Required Minimum Distributions (RMDs) from inherited retirement plans (including IRAs) to non-spousal beneficiaries (there are a few exceptions) must be distributed within 10 years if the owner's death occurred after December 31, 2019. The IRS issued rules that the distributions must be made annually, but suspended required distributions for tax years before 2023. There is no change in the distribution rules for inherited plans for those that died prior to January 1, 2020.
- For those of you working from home as employees, there is no tax deduction for the costs you incur. You should negotiate with your employer to reimburse you for those costs. This limitation does not apply to self-employed individuals.

## General information

- The 2022 standard deduction increases for all taxpayers. It is \$25,900 for those married filing jointly, \$12,950 for a single individual and those married filing separately, and \$19,400 for head of household. For those taxpayers over age 65 or blind, there is an additional standard deduction of \$1,400 each if married or \$1,750 if single. This means the standard deduction for a married couple who are both over age 65 is \$28,700.
- The maximum deduction for IRA contributions remains \$6,000 annually (with an additional \$1,000 for those age 50 or older). You must have earned income to qualify. Contributions for 2022 can be made as late as April 18, 2023.
- For those that itemize, the threshold for deducting medical expenses is permanently set at 7.5% of adjusted gross income.
- Payments to certain qualified health sharing ministries and direct primary care arrangements qualify as medical expenses for itemized deduction purposes. They do not qualify as a health insurance deduction.
- Qualified charitable distributions (QCDs) from your IRA up to \$100,000 annually remains in effect for those age 70½.
- An enhanced insurance premium tax credit for those on the health care exchanges is still in effect. A reconciliation is included with the filing of your tax return.
- The 100% bonus depreciation deduction for business equipment purchases remains for 2022. It is 80% in 2023.
- The 20% qualified business income deduction (QBID) for the self-employed and pass-through entities such as partnerships, S corporations, qualifying limited liability companies, and rental real estate enterprises remains unchanged.
- Taxpayers that took COVID related retirement plan distributions in 2020 and elected income inclusion over 3 years, must include one-third of the distribution in income in 2021 and 2022. Advance repayment is permitted.
- Through 2025, employers can reimburse employees for student loans up to \$5,250 through an education reimbursement program and the payment is not taxable income to the employee.
- Taxpayers can use up to \$10,000 of 529 plan funds to pay off qualified student loans. This is a lifetime (not annual) limit.

## Traditional Year-End Considerations

A number of traditional year-end tax planning strategies may be helpful in maximizing tax savings, depending upon your overall tax situation anticipated for the rest of 2022 and estimated for 2023. These include:

1. Take full advantage of retirement plan deductions including 401(k) plan, 403(b), IRA, and SEP contributions.
2. For those that are close to exceeding the standard deduction amount (as described earlier in this letter), consider bunching itemized deductions into 2022 (see items 3-5 below) and taking the standard deduction in 2023 or vice versa. Itemizing every other year can reap tax benefits. This is known as a “bunching strategy”. Because the standard deduction increases 7% for 2023, 2022 may be a more beneficial year to bunch your itemized deductions.
3. Donate to charity before the year end if you will itemize deductions. Utilizing a ‘donor advised fund’ is gaining popularity. A donor advised fund allows you to make a large donation to the fund in one year and obtain that deduction in that year. In subsequent years, you choose to make your charitable contributions out of the fund (there is no tax deduction in the subsequent year as you obtained a deduction in a prior year). Remember, donations to individuals, social clubs, political groups, or foreign organizations are not deductible.
4. For those that itemize, donate non cash goods before year end. If the total is over \$500, special reporting requirements are required (see our website for assistance with valuation of these items).
5. Accelerate payment of other itemized deductions.
  - a. If a property tax payment is not due until early next year consider paying before year end (most escrow accounts do this for you).
  - b. Make January state estimated tax payments in December.
  - c. Making your January mortgage payment in December accelerates the mortgage interest deduction. Make it early enough so that your mortgage lender reports it in the 2022 Form 1098.
  - d. If you have high medical and dental expenses, pay any bills before the end of the year. This only applies if your total medical expenses will be more than 7.5% of your adjusted gross income and you itemize. If you have nursing home or assisted living costs, consider prepaying some of the 2023 amount.
6. Payment by credit card of expenses including those items listed in items 3-5 above results in the deduction at the time of the credit card charge, not the later payment of the credit card bill.
7. If you have capital gains, consider selling stocks that have losses to offset capital gains if it is economically prudent to do so.
8. Defer income (including bonuses, consulting income, and self-employment income) into the next year if possible. Especially if you anticipate being in a lower tax bracket in 2023.
9. Accelerate business deductions if you want to reduce net income.
10. Pay college tuition before year end if you have not reached the maximum allowed for credits.
11. If you are over 70½, consider making a qualified charitable distribution (QCD) from your IRA of all or a portion of your RMD. It allows a tax-free distribution of up to \$100,000 per individual and can result in other federal and state tax benefits.
12. If you believe a Roth IRA is better than a traditional IRA, consider Roth conversions.

13. Consider additional contributions to your Health Savings Account if you have a high deductible health plan. Maximum contributions are \$7,300 for family coverage and \$3,650 for self-only coverage. Contributions for 2022 can be made as late as April 18, 2023 (if your plan allows). Married couples who both are over age 55 may each make an additional \$1,000 contribution to their separate HSAs.
14. If you have a gifting strategy, make sure all gifts are made before the year end. An individual can gift \$16,000 tax free to each recipient annually. The gifting limit increases to \$17,000 in 2023.
15. Consult us. Many of these strategies can be complicated.
  - a. Selling losing stocks may not be a good strategy depending upon numerous other factors. Some of these factors are your capital gains tax rate, expectations for the stock value in the future, etc.
  - b. If you expect to earn more next year, accelerating deductions and postponing income may not save you money depending upon your tax bracket and more. You may want to do the opposite.
  - c. See number 10. Depending upon your income you may not qualify for education credits.

### **Capital Gains/Dividends, AMT, Net Investment Income Tax and More**

The tax rate on net capital gains is no higher than 15% for most taxpayers. Net capital gain may be taxed at 0% for taxpayers with taxable income less than \$41,675 for single and married filing separately; \$83,350 for married filing jointly or qualifying widow(er); and \$55,800 for head of household. Taxpayers in this situation can sell stock at a gain and buy the same stock back immediately with no federal tax due as long as the gain does not push them into the higher tax bracket. However, a 20% rate on net capital gain applies to the extent that a taxpayer's taxable income exceeds \$459,750 for single; \$517,200 for married filing jointly; \$488,500 for head of household, and \$258,600 for married filing separately. The 3.8% net investment income tax may also apply for some taxpayers.

Keep in mind the "wash sale rules" when reviewing year-end capital gains and dividends. Wash sales are sales of stock or securities in which losses are realized, but not recognized for tax purposes, because the seller acquires substantially identical stock or securities within 30 days before or after the sale. Nonrecognition, however, applies only to losses; gains are recognized in full.

The Net Investment Income Tax (NIIT) is a 3.8% tax that is applied to investment income (dividends, interest, rental income, etc.) and capital gains for earners above certain threshold amounts (\$200,000 for single and head of household filers and \$250,000 for married taxpayers filing jointly). Business income is not considered subject to the NIIT provided the individual business owner materially participates in the business. Perhaps there is planning here to avoid or mitigate the tax.

### **Identity Theft and IRS and State Correspondence Issues**

While not as big of a concern as recent years due to implemented verification procedures, identity theft is still a concern. Please protect your identity in all aspects of your life and contact us immediately if you believe there is an issue with your returns or you believe you are a victim of identity theft. **Remember, the IRS does not contact taxpayers by email or telephone. Emails and phone calls purportedly from the IRS are scams. If in doubt, contact us.** That being said, Congress has authorized collection agencies to contact taxpayers, which most of the time will be by phone. You are not required to provide them with any information. If you receive correspondence from the IRS or your state taxing agency, please open it immediately and contact us. Don't put it aside. The requested response time can be anywhere from 10-30 days. Our experience is that many times the information that the IRS or state has obtained independently is incorrect. We can generally respond on your behalf with no additional tax due.

Our office continues to implement up-to-date measures for security and identity theft protections.

### **Other**

**Life Events:** Marriage, death of a spouse, the birth or adoption of a child, retirement, a new job, loss of a job, the purchase of a new residence, a change in filing status, and other life events impact year-end tax planning. Sometimes timing matters.

**We urge everyone** to review their retirement plan and IRA beneficiary forms to make sure that they are up-to-date. Please be aware that upon your death the beneficiary form controls where the funds go, not your will or trust, so making sure these forms are accurate is essential. We have seen instances after death where the funds went to the unintended divorced spouse or an undeserving family member because these forms were not changed. The result was not the one intended by the deceased. In order to "stretch" your IRA payouts, your IRA needs to have a designated beneficiary. Beneficiary forms for life insurance policies should also be reviewed.

**IRAs:** There are strict restrictions on moving money between IRA accounts. Account-to-account transfers are unlimited. Taking distributions yourself and redepositing the funds (known as rollovers) can only be done once in a 12-month period no matter how many IRAs that you have.

**Underpaid taxes:** If you believe that you are underpaid in federal or state income taxes, consider increasing your withholdings for the rest of the year to avoid or lessen any potential underpayment penalties. If you are not subject to withholdings, increase your remaining estimated tax payments.

**Michigan:** The Michigan exemption amount increased to \$5,000 for 2022 and will be indexed for inflation in future years.

**Charitable deductions:** As we head into the holiday giving season, please know that all cash donations to charity must be documented—no exceptions. You do not have to provide all supporting documents to us, but you must have them in your files. You are no longer allowed any write-offs for contributions of cash or other monetary gifts unless you retain either a bank record such as a canceled check, or a written statement from the charity. For donations of over \$250, the canceled check is not enough – you must have the statement from the charity prior to the filing of your tax return. Also, for clothing and household item donations to Goodwill, Salvation Army, and other charities, please create an itemized list and value each item. This is the documentation the IRS requires. We can provide guidance on values (visit our website for assistance with these values). Items donated to charity must be in “good or better” condition.

**Mileage Rates:** The IRS has two standard mileage rates for 2022 for business miles. They are \$.585 per mile from 1/1/22-6/30/22 and \$.625 from 7/1/22-12/31/22. The medical mileage rates for 2022 are \$.18/\$.22 per mile respectively for those time periods and for charitable miles it is \$.14. The IRS requires good records to substantiate your mileage deductions. There is no substitute for a mileage log to prove business miles driven. The simplest log is to record your miles on your calendar or utilize a phone app. If you itemize, charitable mileage is also deductible including those trips to volunteer at church, school, food pantry, thrift store, or a non-profit organization. Medical miles to the doctor or pharmacy are also deductible, if you qualify for a medical deduction.

**Office in home deduction:** There are two methods to choose from. Under the simplified method, the taxpayer can deduct \$5 per square foot annually for no more than 300 square feet for a maximum deduction of \$1,500 under this method. You can use the deduction of tracking actual expenses if that method is more advantageous for you.

**Businesses:** *Meals*—make sure to document time, place, amount, business purpose, and who you met with for each expense. Meals provided to employees for the convenience of employer (such as when they work overtime) are 50% deductible unless provided by a restaurant; then they are 100% deductible. The IRS always reviews these expenses in an audit. *Inventory* – New rules provide flexibility in keeping track of this. *Assets* – Immediate write-off of total cost of most non-real estate assets. *Vehicles* – If you deduct actual vehicle expenses rather than the cents-per-mile method and you are contemplating the purchase of a vehicle before year-end, depending on the cost and size of the vehicle, you may be able to deduct the entire amount in 2022 for certain large vehicles.

**Foreign Bank and Brokerage Accounts:** This does not apply to foreign investments held in US brokerage accounts. If you have any foreign trust, bank and/or brokerage accounts with a combined value greater than \$10,000 on **any day of the year**, or you hold specific foreign financial assets (excluding land) greater than \$50,000 at the end of the tax year, you are required to report them. The IRS concentrates resources in this area, and the penalty for failure to file the form can be the greater of \$100,000 or 50% of the account balance. Also, be sure to tell us about any income generated by these accounts, even if you did not receive a 1099.

**Medicare and Social Security:** Medicare premiums for 2023 are based upon your modified adjusted gross income from your 2021 tax return. Those with higher incomes pay higher monthly premiums. If you have had a “life-changing event” as defined by Medicare (including a significant reduction in income, like retirement), you may request a reduction in your premiums. We recommend that every year or two you review the earnings that Social Security has on file for you. It is much easier to correct any errors now rather than many years later at retirement. Go to [www.ssa.gov](http://www.ssa.gov) and set up an account. It will allow you to verify your earnings and get an estimate of your future benefits (and much more).

## **Conclusion**

This letter is meant to summarize the most common tax law changes and planning items, but it cannot cover everything. If you are aware of a provision that affects you, please contact our office to discuss the effects on your personal tax and financial situation. Sometimes tax planning involves avoiding surprises when taxes are due in April. If you have unusual transactions to report for 2022, give us a call soon so that we can make sure you are prepared and have done all you can in 2022 to help your tax situation.

Our 2022 tax organizer will arrive in January. Returning clients will receive a personalized organizer which will contain information from last year’s return. We hope the organizer will make it easier to collect this year’s information. New clients will receive a generic organizer for their use.

For more details about the year-end planning ideas we have discussed, and to review other strategies, please contact our office. Together, we can create a customized 2022 year-end tax strategy tailored to you.

In the meantime, have a wonderful Holiday Season! We look forward to hearing from you soon.

*Doug and associates*