Barto, Hoss & Company, P.C.
Certified Public Accountants

2022 YEAR-END TAX PLANNING NEWSLETTER

Dear Client:

PLEASE READ THE FOLLOWING VERY IMPORTANT MESSAGE

In an attempt to reduce the amount of paper consumed, we are going to mail a truncated organizer this year. This shorter version of the Tax Organizer will have a cover letter, engagement letter, and only selected pages with questions we need answered. You will still need to provide your tax documents as you have in the past.

If you would like to have the entire organizer, please contact us via phone or email and we will gladly send the entire document. We can mail or email these as requested.

The tax picture for 2022 looks a little different than 2021. Several of the COVID-related tax provisions have been allowed to expire. The Inflation Reduction Act of 2022 also made a variety of changes that impact 2022 taxes. 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. The likelihood of some additional tax legislation this year may depend on the ultimate outcome of the November elections.

Year-End Tax Planning Moves for Individuals

• The 2022 Inflation Reduction Act extends and creates many green and energy efficiency tax benefits. The 2022 Inflation Reduction Act also imposes several new requirements to obtain the largest possible deduction or credit. Many of the new requirements are not effective until 2023 or later. Therefore, there may be an opportunity to take advantage of some of these tax breaks before the new requirements come into play. However, this option needs to be weighed against the possibility for receiving the higher deduction or tax credit in later years.

The following provisions related to green energy that had expired at the end of 2021 or were due to be phased out have been extended under the 2022 Inflation Reduction Act.

- The Clean Vehicle Credit (formerly the Plug-in Electric Vehicle Credit) contains several new requirements effective starting in 2023 or later. One new provision starting on the enactment date, August 16, 2022, requires that the vehicle be assembled in North America. However, a vehicle purchased or subject to a binding written contract entered into before August 16, 2022, may be treated as placed in service on August 15, 2022, even though it was actually placed in service on or after August 16, 2022.

- The newly renamed Energy Efficient Home Improvement Credit has been extended through 2022, with most of the new requirements and enhancements, particularly changing a $500 lifetime credit to a $1,200 annual credit, effective for 2023 through 2032. However, the $500 lifetime credit is still available for 2022 for taxpayers who have not already used up this amount.
- The newly renamed Residential Clean Energy Credit for solar and wind installations had been scheduled to phase-down to 26 percent in 2022. It has now been restored to 30 percent for 2022, with the 30 percent credit extending through 2032, after which a phase-down starts again. One additional change for 2022 and beyond is that the credit is no longer available for biomass furnaces and water heaters.
- The Alternative Fuel Refueling Property Credit has been extended retroactively for 2022 and through 2032. However, it appears that, starting in 2023, the credit is limited to property located in rural or low-income census tracts. There is some debate as to whether this limitation is intended to apply only to business

installations. However, for 2022, individuals can still qualify for the $1,000 credit for an installation placed in service in 2022.

• Key tax considerations from recent tax legislation and other year-end strategies:

- Under the American Rescue Plan Act of 2021, the discharge or cancellation of qualified student loans may be excluded from a taxpayer's federal gross income for tax years beginning after December 31, 2020, and before January 1, 2026. However, there are several states that do not conform to this rule. There is continued uncertainty on the state taxability of student loan forgiveness as some states consider revising their tax rules.

- Required minimum distributions (RMDs) are the minimum amount you must annually withdraw from your retirement accounts (e.g., 401(k) or IRA) if you meet certain criteria. For 2022, you must take a distribution if you are age 72 by the end of the year (or age 70½ if you reach that age before January 1, 2020). Planning ahead to determine the tax consequences of RMDs is important, especially for those who are in their first year of RMDs.

- Digital asset (formerly referred to as virtual currency) transactions are becoming more common. There are many different types of digital assets, such as Bitcoin, Ethereum, and nonfungible tokens (NFTs). The sale or exchange of digital assets, the use of such assets to pay for goods or services, or holding such assets as an investment, generally has tax impacts.

- With a possible significant increase in IRS funding to enhance audit rates of tax returns, taxpayers may want to focus on making sure they have documentation to support all deductions and credits on their tax returns.

- The above-the-line educator deduction has finally been increased for inflation from $250 in 2021 to $300 in 2022.

- The standard mileage rate for 2022 had a mid-year adjustment from 58.5 cents per mile at the beginning of 2022 to 62.5 cents per mile starting on July 1, 2022. Therefore, business miles will have to be separated into two periods to apply the two rates.

- The Child Tax Credit as well as the Dependent and Child Care Credit remain in place, but the so-called "enhancements" have so far been allowed to expire at the end of 2021. It is yet to be seen if either of these will be extended with a new tax bill at the end of the year. If the enhancements are not extended, the credits will be less than in 2021.

• In addition to new tax law changes above, the following continue to be effective tax strategies available from existing tax law.

- Long-term capital gain from sales of assets held for over one year is taxed at 0%, 15% or 20%, depending on the taxpayer's taxable income. If you hold long-term appreciated assets, consider selling enough of them to generate long-term capital gains that can be sheltered by the 0% rate. The 0% rate generally applies to the excess of long-term capital gain over any short-term capital loss to the extent that, when added to regular taxable income, it is not more than the maximum zero rate amount (e.g., $80,000 for a married couple). If the 0% rate applies to long-term capital gains you took earlier this year for example, you are a joint filer who made a profit of $5,000 on the sale of stock held for more than one year and your other taxable income for 2022 is $75,000 then before year-end, then try not to sell assets yielding a capital loss, because the first $5,000 of those losses won't yield a benefit this year. (It will offset $5,000 of capital gain that is already tax-free.

- If you believe a Roth IRA is better than a traditional IRA, consider converting traditional-IRA money invested in beaten-down stocks (or mutual funds) into a Roth IRA in 2022 if eligible to do so. Keep in mind,

- however, that such a conversion will increase your AGI for 2022, and possibly reduce tax breaks geared to AGI (or modified AGI).

- Many taxpayers will still not be able to itemize due to the high standard deduction amounts for 2022 ($25,900 for joint filers, $12,950 for singles and for marrieds filing separately, $19,400 for heads of household), and because many itemized deductions have been reduced or abolished. You can still itemize deductions such as medical expenses (but only to the extent they exceed 7.5% of your adjusted gross income), state and local taxes up to $10,000, your charitable contributions, and interest deductions on a restricted amount of qualifying residence debt. However, payments of those items won't save taxes if they don't cumulatively exceed the standard deduction for your filing status. Personal disaster and casualty losses are deductible only if they're attributable to a federally declared disaster, subject to certain limits. The above-the-line deduction for cash contributions for non-itemizers expired at the end of 2021 and has not yet been extended. In addition, the income-based charitable deduction limit for cash contributions has decreased from 100% to 60% for 2022.

  Some taxpayers may be able to work around these deduction restrictions by applying a bunching strategy to pull or push discretionary medical expenses, income and/or real estate taxes, and charitable contributions into the year where they will do some tax good. For example, if a taxpayer knows he or she will be able to itemize deductions this year but not next year, the taxpayer will benefit by making two years' worth of charitable contributions this year, instead of spreading out donations over 2022 and 2023.

- Make gifts sheltered by the annual gift tax exclusion before the end of the year if doing so may save gift and estate taxes. The exclusion applies to gifts of up to $16,000 made in 2022 to each of an unlimited number of individuals.

Year-End Tax-Planning Moves for Businesses & Business Owners

The following are some highlights of how the current legislation has affected businesses and business owners as well as some continuing effective tax strategies.

• In addition to the tax changes mentioned above by the Inflation Reduction Act of 2022, there were a few green energy provisions that were extended regarding businesses and business owners.

- For commercial building owners or lessees, The Energy Efficient Commercial Building Tax Deduction remains in effect for 2022, with new requirements and higher deduction limits for tax years beginning after 2022.

- For home builders, the Credit for Energy Efficient Homes is also extended for 2022 and beyond, again with new requirements and higher potential credit limits effective for 2023 and beyond.

- Several existing credits for the energy industry are also extended for 2022. These include the Biodiesel, Renewable Diesel and Alternative Fuel Credits; the Second-Generation Biofuel Producer Credit; the Production Tax Credit; the Investment Tax Credit; and the Credit for Carbon Oxide Sequestration.

• The 2022 Inflation Reduction Act also enacts a corporate alternative minimum tax (AMT) on applicable corporations. For tax years beginning after 2022, a 15 percent corporate AMT is imposed on the adjusted financial statement income of corporations with a three-year average annual income in excess of $1 billion, or in excess of $100 million of a US subsidiary of a foreign corporation.

• The following are some expiring provisions that have not yet been extended for 2022. There may still be an end of year effort to retroactively extend some or all of them.

- Beginning in 2022, taxpayers may no longer currently deduct research and experimental expenditures. Instead, amounts paid or incurred for specified research expenditures must be amortized ratably over give years.

• The requirements for issuing a Form 1099-K have been greatly expanded for 2022. The form is now required for third party settlement networks if over $600 has been paid in business transactions during the year. This is expected to significantly expand the number of 1099-Ks being issued and received. Taxpayers may receive 1099-Ks for personal transactions where the issuer has not been able to distinguish personal from business transactions. Taxpayers may also receive 1099 forms from both the seller and third-party payment processor for the same transaction. Taxpayers may need to explain on the tax return the 1099-Ks that have been received that have not been reflected on the tax return.

• As a reminder, employers that took advantage of the option to defer payroll taxes due from the period beginning on March 27, 2020 and ending on December 31, 2020 must continue to make those payments with the first half of the deferred payroll taxes being already due on December 31, 2021 and the remainder due on December 31, 2022.

• In addition to new tax law changes above, the following continue to be effective tax strategies available from existing tax law.

- Taxpayers other than corporations may be entitled to a deduction of up to 20% of their qualified business income. For 2022, if taxable income exceeds $340,100 for a married couple filing jointly, $170,050 for singles, married filing separately, and heads of household, the deduction may be limited based on whether the taxpayer is engaged in a service-type trade or business (such as law, accounting, health, or consulting), the amount of W-2 wages paid by the trade or business, and/or the unadjusted basis of qualified property (such as machinery and equipment) held by the trade or business. The limitations are phased in for example, the phase-in applies to joint filers with taxable income between $340,100 and $440,100 and to all other filers with taxable income between $170,050 and $220,050.

  Taxpayers may be able to achieve significant savings with respect to this deduction, by deferring income or accelerating deductions so as to come under the dollar thresholds (or be subject to a smaller phaseout of the deduction) for 2022. Depending on their business model, taxpayers also may be able increase the new deduction by increasing W-2 wages before year-end. The rules are quite complex, so don't make a move in this area without consulting your tax adviser.

- Businesses should consider making expenditures that qualify for the Section 179 (business property expensing option). For tax years beginning in 2022, the expensing limit is $1,080,000, and the investment ceiling limit is $2,700,000. Expensing is generally available for most depreciable property (other than buildings) and off-the-shelf computer software. It is also available for qualified improvement property (generally, any improvement to a building's interior, but not for enlargement of a building, elevators or escalators, or the internal structural framework), for roofs, and for HVAC, fire protection, alarm, and security systems. The expensing deduction is not prorated for the time that the asset is in service during the year. The fact that the expensing deduction may be claimed in full (if you are otherwise eligible to take it) regardless of how long the property is held during the year can be a potent tool for year-end tax planning. Thus, property acquired and placed in service in the last days of 2022, rather than at the beginning of 2023, can result in a full expensing deduction for 2022.

- Businesses also can claim a 100% bonus first year depreciation deduction for machinery and equipment bought used (with some exceptions) or new if purchased and placed in service this year, and for qualified improvement property, described above as related to the expensing deduction. The 100% writeoff is permitted without any proration based on the length of time that an asset is in service during the tax year.

- As a result, the 100% bonus first-year writeoff is available even if qualifying assets are in service for only a few days in 2022. After 2022, the business depreciation write-off will begin to phase-out with a reduction from 100% to 80% for 2023.

- Businesses may be able to take advantage of the de minimis safe harbor election (also known as the book-tax conformity election) to expense the costs of lower-cost assets and materials and supplies, assuming the costs don't have to be capitalized under the Code Sec. 263A uniform capitalization (UNICAP) rules. To qualify for the election, the cost of a unit of property can't exceed $5,000 if the taxpayer has an applicable financial statement (AFS; e.g., a certified audited financial statement along with an independent CPA's report). If there's no AFS, the cost of a unit of property can't exceed $2,500. Where the UNICAP rules aren't an issue, consider purchasing such qualifying items before the end of 2022.

- To reduce 2022 taxable income, consider deferring a debt-cancellation event until 2023.

- To reduce 2022 taxable income, consider disposing of a passive activity in 2022 if doing so will allow you to deduct suspended passive activity losses.

These are just some of the year-end steps that can be taken to save taxes. Again, by contacting us, we can tailor a particular plan that will work best for you.

Very truly yours,

Barto, Hoss & Company, P.C.

December 1, 2022

Barto, Hoss & Company, P.C.
Certified Public Accountants

5751 Uptain Road • Suite 100 • Uptain Bldg.
Chattanooga, TN 37411-4077
www.bartohoss.com

2022 Year-End Tax Planning Letter