STRONG & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

2022 Year-End Tax Highlights

The past few years have brought a lot of changes to our everyday life as well as many tax law changes. We saw a plethora of tax bills. Due to the vast scope of these bills, we have limited this letter to the items we wanted to highlight. We are also limiting this letter to the bills that have been enacted into law as of the time of this letter.

Individual Items

(For simplicity, these figures use the **Married Filing Jointly (MFJ)** filing status unless otherwise noted, there may be different thresholds for other types of filers.)

For individuals that are not 72 on or before December 31, 2022, the new age at which Required Minimum Distributions will have to start has been increased to 73 starting in 2023. The new age is set to increase to 75 as of January 1, 2033.

For individuals that inherit an IRA or defined contribution plan after 2019, the entire account balance must be distributed by December 31 of the 10th year following the year of the decedent's death. A surviving spouse, child of decedent who has not reached aged 18 (the 10-year rule starts in the year they turn 18), disabled individual, chronically ill individual, or a beneficiary that is not more than 10 years younger than the decedent are exempt from this rule. The age restriction on contributions to IRAs was also removed starting in 2020.

The popular rule allowing taxpayers who have reached age 70½ to make a tax-free transfer of up to $100,000 from their IRAs directly to a qualified charity has been retained. The IRA transfer to the charity also counts toward the IRA owner's "Required Minimum Distributions" (RMDs) for the year. This tax break effectively allows a qualifying taxpayer to exclude all or a portion of their otherwise taxable RMDs from taxable income, which has the same tax effect as allowing an "above-the- line" deduction for the charitable contribution. The Tax Cuts and Jobs Act (TCJA) has made this tax break even more valuable for taxpayers who will not itemize deductions because of the increased standard deduction.

There has been lot of new changes in retirement accounts with the Secure Act 2.0. The general goal was to allow more people the opportunity to set aside more funds for retirement. Some of the highlights are, higher limits, catch up limits, expanding automatic enrollment, penalty-free withdraws for certain emergency expenses, starter 401(k) plans, improving coverage for part-time workers, etc. Since this letter is geared towards individuals we are not getting into the details on the various items as they will be outlined by your employer sponsored plans.

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The credit for qualified **energy-efficient home improvements** applies to property placed in service before 2023. This is a 10% credit with a **lifetime** limit of $500. Starting in 2023 this credit has increased to 30% credit with an **annual** $1,200 limitation.

The **credit for electric vehicles (EV)** has changed 3 times within the last 6 months. Vehicles purchased after August 16, 2022 requires the final assembly of the vehicle to occur in North America to qualify for the credit. Starting in 2023, the clean vehicle credit is a maximum credit of $7,500 for new EVs. The vehicle must have a minimum battery capacity of seven kilowatt hours; be manufactured primarily for use on public streets, roads, and highways; have at least 4 wheels, and have a gross vehicle weight rating (GVWR) of less than 14,000 lbs. No credit will be allowed for a new vehicle if the manufacturer's suggested retail price of the vehicle exceeds: $80,000 for SUVs, pickups, and vans; and $55,000 for other vehicles. In addition, no credit will be allowed for a new vehicle if the lesser of current or prior year modified adjusted gross income is more than $300,000 for joint filers, $225,000 for head of households, and $150,000 for others. You can check the vehicle's qualifications at www.nhtsa.gov/vin-decoder. There are still some gray areas as to a credit for leased vehicles, however the credit stays with the manufacturer.

There is a **credit for used electric vehicles (EV)** starting in 2023. To qualify, the vehicle sales price must be $25,000 or less, at least two model years older than the calendar year purchased, the used credit has never been claimed on this vehicle, buyer has not claimed the used credit in the past 3 years, personal use vehicle, and purchased through a dealer. The credit is up to 30% of the vehicle's value, with a max of $4,000. The purchaser's modified adjusted gross income must not exceed $150,000 (joint return), $112,500 (head of household), or $75,000 (single).

Another thing to consider is weighing the benefits of a **Roth IRA conversion**, especially if this will be a low-tax year. Although the conversion is subject to current tax, you generally can receive tax-free distributions in retirement, unlike taxable distributions from a traditional IRA. There are other potential benefits, such as lowering overall estate assets by paying the tax on the conversion during your lifetime.

Long-Term Capital Gains and Qualified Dividends continue to get a preferential tax rate of 0%, 15%, and 20% with the 0% being capped at taxable income of $83,550 for 2022 and $89,450 for 2023.

Child Credit reverted back to $2,000 for a qualifying child and $500 for other dependents. Total credits are reduced by $50 for each $1,000 of modified adjusted gross income over $400,000 for joint filers, and $200,000 for all others. Also, the credit is no longer fully refundable. Refundable credit is limited to 15% of earned income in excess of $2,500 up to a maximum refundable credit of $1,500 for 2022.

Dependent Care Credit also decreased for 2022. The maximum expenses eligible for the child and dependent care credit reverted to $3,000 for one qualifying individual and $6,000 for two or more qualifying individuals. Maximum credit is $600 for one qualifying individual and $1,200 for two or more. The phase out based on adjusted gross income has been removed for 2022.

Since the **standard deductions** increased to $25,900 for 2022 and $27,700 for 2023, you could implement a "bunching" strategy to maximize your itemized deductions every other year. Your goal would be to increase itemized deductions, so that more deductions are intentionally incurred, thus generating a larger itemized amount in some years as opposed to the amount available under the standard deduction method, which you would take every other year. For example, pay your real estate taxes in 2023 for 2022 that are due on or before January 5, 2023, and then pay the 2023 taxes in 2023. This strategy will help you to have two years of real estate taxes paid in the same year, 2023 in this example. If you put such a plan in place to "bunch" your itemized deductions every other year, by planning to take the standard deduction in a given year, then you should work in the following year towards itemizing deductions. For each year thereafter, you would then alternate between a year of taking the standard deduction and a year of taking itemizing deductions. This strategy will help to save tax dollars by only adjusting the timing of disbursements you are already planning to make, like charitable contributions and medical expenses that exceed 7.5% of your adjust gross income.

For **Divorce or Separation Instruments** that were executed after 2018, the TCJA repealed the deduction for alimony payments, and the alimony payments will no longer be taxable to the payee. Alimony payments pertaining to a divorce instrument executed before 2019, will continue to be deductible by the individual making the payments (and taxable to the recipient), unless the divorce instrument is modified to expressly provide that the alimony payments are to be nondeductible to the payer and nontaxable to the recipient. The repeal of the deduction for alimony payments has no sunset date! Child support payments are still not deductible by the individual making the payments and are not taxable to the recipient.

Tax-related identity theft remains one of the most common identity theft complaints received by the FTC. To assist victims of identity theft, the IRS has issued **Identity Protection PIN's (IP PINs)**. Annually, the IRS assigns and mails an IP PIN, which is a unique, six-digit number to victims of identity theft. The IP PINs are sent each December and individuals should be careful not to lose the IP PIN. We cannot process an individual's tax return without the IP PIN, so please furnish these to our office once you receive them.

A health insurance subsidy is available through a **premium assistance credit** for eligible individuals and families who purchase health insurance through insurance Exchanges offered under the Patient Protection and Affordable Care Act (PPACA). The premium assistance credit is refundable and payable in advance directly to the insurer on the Exchange. Individuals with incomes exceeding 400 percent of the poverty level are normally not eligible for these subsidies. However, the ARP eliminated that provision for tax years beginning in 2021 or 2022 and allows anyone to qualify for the subsidy.

2022 Federal Tax Rates & Brackets

Rate	Single	Married Filing Jointly	Married Filing Separately	Head of Household
10 %	Up to $10,275	Up to $20,550	Up to $10,275	Up to $14,650
12 %	$10,276 to $41,775	$20,551 to $83,550	$10,276 to $41,775	$14,651 to $55,900
22 %	$41,776 to $89,075	$83,551 to $178,150	$41,776 to $89,075	$55,901 to $89,050
24 %	$89,076 to $170,050	$178,151 to $340,100	$89,076 to $170,050	$89,051 to $170,050
32 %	$170,051 to $215,950	$340,101 to $431,900	$170,051 to $215,950	$170,051 to $215,950
35 %	$215,951 to $539,900	$431,901 to $647,850	$215,951 to $323,925	$215,951 to $539,900
37 %	$539,901 or more	$647,851 or more	$323,926 or more	$539,901 or more

When you have signatory or other authority over a **foreign bank account** with a value at any time during the year of $10,000, or more, you must file Form FinCEN 114 with the IRS in addition to your regular tax return. The Form FinCEN 114 must be filed electronically, and is due by April 15th each year, and there are heavy penalties for not reporting the account. If you have any authority over a foreign bank account, please let us know. In addition to this reporting requirement, you may have to file Form 8938, Statement of Specified Foreign Financial Assets with your regular income tax return. Generally, if you have a financial account (securities, brokerage, savings, demand, checking, mutual fund, insurance or annuity policy with a cash surrender value, an interest in a foreign pension plan or foreign deferred compensation plan, deposit or time deposit) maintained by a foreign financial institution or a stock or security issued by a foreign person, any interest in a foreign entity or any financial instrument or investment contract where the issuer is not a U. S. person, that the aggregate value exceeds $50,000 on the last day of the tax year or more than $75,000 at any time during the year ($100,000 on the last day of the tax year for a married couple or $150,000 at any time during the year) then you must file this new form. Information we will need includes the account number, name of financial institution and the maximum value during the year. If the holdings are in a financial institution that is not foreign, then you do not have to report the holdings. For example, a foreign stock in a U.S. brokerage account would not have to be reported. Penalties for not reporting are severe, and for Form 8938 start at $10,000 minimum with a maximum of $50,000.

A **virtual currency** is an equivalent value in real currency, or as a medium that acts as a substitute for a real currency. It is commonly referred to as "convertible" virtual currency. Bitcoin is an example of such a currency, and it can be traded between users, used for purchases, or exchanged into U.S. dollars (USD), Euros (EUR) and other foreign or virtual currencies. For tax purposes, virtual currency is treated as property and not currency, so there are not any foreign currency gains or losses to be reported. If you receive virtual currency as payment for goods or services, you measure it in U.S. dollars based on its trade value as of the date of receipt. Generally, you realize capital gains or losses on the sale or exchange, if held as an investment and ordinary income and expenses, if received or used to pay for goods or services. Form 1040 has a yes/no question if the taxpayers have a financial interest in Virtual Currency. At any time during 2022, did you receive (as a reward, award, or compensation), sell, exchange, gift, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? Therefore, we will have it on the organizer as a question. Please remember to let us know if you do have a financial interest in Virtual Currency when you provide us with your information to do your tax return. **If not answered, we will assume you did not have a financial interest.**

Charitable Contributions are being scrutinized by the IRS. ALL "cash" contributions require a canceled check, letter, receipt, or other written communication from the charity showing their name, the date, and the amount of the contribution. If it is over $250, a receipt from the qualified charity is required and it must state as to whether you received anything in return for your contribution. This receipt must be received from the charity by the time you file your return (a canceled check is not enough) if the return is timely filed. The receipt must contain the amount of cash and a description of any property other than cash contributed and a statement as to whether the charity provided you with any goods or services in return for your contribution and a description and good faith estimate of the value of any goods or services, if any, the charity provided to you, or if applicable, a statement that the goods and services consisted solely of intangible religious benefits. All Noncash contributions of clothing and household items must be in "good or better condition". Noncash contributions generally need to be supported by a receipt which contains the name of the charity, a description of the property and the date and location of the contribution. For noncash donations of property with a value over $5,000, you must have both a qualifying written receipt and an appraisal by a qualified appraiser.

Estate and Gift Taxes

Effective for individuals dying and generation skipping transfers after 2017 and before 2026, the TCJA increases the Unified Exclusion Amount for **gift & estate** tax purposes and the generation skipping exemption amount to $12,060,000 for 2022 and $12,920,000 for 2023. The TCJA did not change the current law provision allowing a deceased spouse's estate to elect to transfer the deceased spouse's unused Exclusion Amount (i.e., the portability election) to the surviving spouse. You should carefully review, from time to time, your wills, powers of attorney, health care powers of attorney, living wills, beneficiary designations on retirement accounts, annuities, life insurance policies, etc., to ensure they are up-to-date and still in compliance with your wishes.

The annual exclusion for **gifts** is $16,000 for 2022 and $17,000 for 2023. This limit is per individual, and gifts may be made to an unlimited number of recipients each year. Annual gifts made to a given donee recipient in excess of these amounts, will need to be reported on a Federal Form 709, United States Gift Tax Return.

Business Related Items

The standard **mileage rate** for business driving is 65.5 cents for 2023 (up from 62.5 cents for last half of 2022). You may claim the cost of parking and tolls if you use the standard rate, but not the cost of fuel and repairs. You may not use this standard method if you claimed accelerated depreciation or expensing on the vehicle.

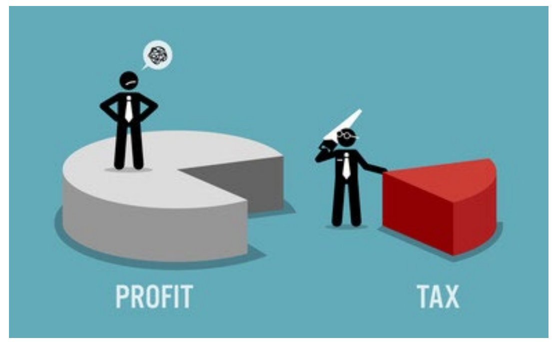
The **Social Security wage base** for 2023 is $160,200, 2022's limit was $147,000.

Health Insurance Reimbursements made by an employer to employees are no longer allowed. Employers may not reimburse employees pre-tax or after-tax for all or a portion of the employee's personal health insurance premium. Any employer who is found to be in violation of this provision will be subject to a $100 per day penalty per employee for whom the employer reimbursed employees' health insurance premium. An alternative method may be for the employer to increase the pay for the employee and then the employee can pay the premiums, but employers cannot require that the money be used to pay premiums. Until further guidance is provided, S corporations and shareholders can continue to reimburse individual health insurance premiums of 2-percent shareholder-employees without being subject to the $100 per day penalty per employee.

Food and beverages are allowed as a 100% deduction instead of the normal 50% deduction for years after 2020 and **before 2023** if the food and beverages are provided by a restaurant.

Banks are now required to report the aggregate gross dollar amount a merchant receives from credit or debit card transactions during the calendar year to the IRS and merchant on a **Form 1099-K**. Starting in 2023 (was originally starting for 2022) the threshold is being lowered to $600 annually for these types of transactions, for 2022 it was $20,000 and 200+ transactions. There will also be a yes/no question on the business returns asking if you have filed the required 1099's for your business. If you would normally report payments made during your trade or business to a third party for commissions, services, etc. by filing Form 1099-NEC then the payment is not required to be reported if the payment was made using a credit or debit card since they will be reported on the new Form 1099-K. The IRS is continuing its aggressive policy of assessing penalties for failure to file Forms 1099. The penalty is $50, if filed within 30 days; $110, if filed before August 2nd; and $290, if filed after August 1st. The penalty for intentional failure to file Forms 1099 is $580. There may be additional penalties for not filing the recipient copies as well. There could be larger penalties for large businesses. **This penalty is per Form 1099 not filed correctly.**

Vehicles used primarily in business qualify for the 168(k) Bonus Depreciation. However, there is a dollar cap imposed on business cars, trucks, vans, and SUVs that have a loaded Gross Vehicle Weight Rating (GVWR) of 6,000 lbs. or less. In 2022 the maximum allowed depreciation was $19,200 for the 1st year; 2nd year $18,000; 3rd year $10,800; fourth and subsequent years $6,460. Even better, if the same new or used **business vehicle** (which is used 100% for business) has a loaded GVWR over 6,000 lbs., 100% of its cost (without a dollar cap) could be deducted in 2022 as a 168(k) Bonus Depreciation Deduction.



Employee retention credit provides a refundable payroll tax credit for 50% of wages paid by eligible employers to certain employees during the COVID-19 crisis. Eligible employers are those who have experienced greater than 50% reduction in quarterly receipts, measured on a year over year basis. Wages are capped at the first $10,000 paid to an employee and do not include amounts paid under emergency paid sick leave or emergency paid family leave for 2020 or with fund from the Paycheck Protection Program (PPP). The employee retention credit is changed for the first, second and third quarter of 2021. The 2021 calculation is a 20% reduction in quarterly receipts (looking back to same quarter in 2019 or the previous calendar quarter), and the credit is 70% of wages up to $10,000 paid to each employee for each quarter. Please let us know if you think this may apply to your business and you have not already claimed this credit, as there are more details to this law which was changed multiple times since the start of the pandemic.

Increased IRS funding has allowed them to hire 87,000 new agents over 10 years. This is expected to help them with providing better service, but also to assist them with advancing enforcement efforts.

North Carolina Provisions

Individuals are subject to a **flat income tax rate** 4.99% for 2022 and 4.75% for 2023. The rate is set to change to 4.6% for 2024, 4.5% for 2025, 4.25% for 2026 and 3.99% after 2026.

Medical and dental expenses are now permanently allowed based on the same rules as the federal tax return, which uses a 7.5% threshold of adjusted gross income.

The **standard deduction** for 2022 is $25,500 for joint filers. The standard deduction for 2023 is $25,900.

The **motor fuel tax** for 2022 is 38.5 cents per gallon and is increasing to 40.5 center per gallon for 2023.

Effective January 1, 2020, **businesses are required to withhold** state income tax on payments to any of the following:

1. A nonresident contractor, meaning a nonresident individual or entity who performs for compensation any performance, entertainment, athletic event, speech, or creation of a radio, film, or television program. A nonresident entity can be a foreign LLC, partnership, or corporation, which has not received a certificate of authority from the NC Secretary of State.

2. An Individual Taxpayer Identification Number (ITIN) contractor, meaning an individual who does not have a social security number who performs services in NC other than wages for compensation.

3. A person who does not provide a taxpayer identification number or a valid taxpayer identification number. Also, the payments are expected to exceed $1,500 during the year.

Unlike the federal temporary provision, **food and beverages** are not allowed as a 100% deduction and still limited to 50%.

Effective Jan. 1, 2022, an elective pass-through entity may have a workaround to the federal individual State and Local Taxes **(SALT) deduction limitation** of $10,000 enacted by the Tax Cuts and Jobs Act. The pass-through entity must elect on its annual return and cannot revoke the election after the due date of the return, including any extensions. A partnership, with a partner that is a corporation or another partnership (or other entity treated as a partnership for federal income tax purposes), will not be permitted to make the pass-through entity tax election. A partnership or S corporation that takes the election is no longer required to make withholding payments on behalf of its nonresident partners or shareholders.

Effective Jan. 1, 2021, retirement pay for service in the **Armed Forces** of the United States may be deductible in North Carolina income tax calculations if they served at least 20 years or are medically retired under 10 U.S.C. Chapter 61. This deduction does not apply to severance pay received by a member due to separation from the member's armed forces.

The **child deduction** is now based on the number of qualifying children, the deduction will be available to taxpayers who qualified for a federal child tax credit. Under each filing status there are five different child deduction amounts (i.e., $2,500, $2,000, $1,500, $1000, and $500) are available for taxpayers whose Federal AGI fall within a specified range. Federal AGI that exceeds the upper range of the highest bracket will become ineligible for any NC child deduction. Taxpayers with Federal AGI in excess of $120,000, on a joint return; $60,000 for single and married filing separately; and $90,000, for head of household will be ineligible for a NC child deduction.

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