LIFETIME
Asset & Tax
Management

2022 YEAR-END INCOME TAX PLANNING FOR INDIVIDUALS

INTRODUCTION

It's hard to believe we are already in the final quarter of 2022. As we begin looking forward to the possibilities of a new year, we believe it's important to take a moment to look back and review 2022 for year-end tax planning opportunities. We believe examining your 2022 tax situation before year-end could lead to tax savings when you file in 2023. To assist you, we have included our 2022 year-end income tax planning letter. We've included selected traditional as well as selected new planning ideas for you to consider. If you have any questions or want to discuss planning ideas not included in our letter, please call our firm so we can discuss.

Caution! The IRS continues releasing guidance on various important tax provisions. We closely monitor new tax legislation and IRS releases. Please call our firm if you want an update on the latest tax legislation, IRS notifications, announcements, and guidance or **if you need additional information concerning any item discussed in this letter.**

Be Careful! We suggest you call your tax practitioner before implementing any tax planning technique discussed in this letter. You cannot properly evaluate a particular planning strategy without calculating your overall tax liability with and without that strategy. This letter contains ideas for Federal income tax planning only. **State income tax issues are not addressed.**

POSSIBLE LEGISLATION BEFORE YEAR-END

Each year we work to provide you with our year-end planning letter in time to allow implementation of possible tax saving strategies before December 31st. As a result, it is possible Congress could pass new legislation between your receipt of this letter and year-end. There are over 30 temporary tax provisions that expired at the end of 2021, many of which were energy related and were extended or changed by the Inflation Reduction Act of 2022. However, it appears a December omnibus spending package is the best chance for an extension of several expired or expiring provisions that were not extended by the Inflation Reduction Act in August. We have included a discussion of the Inflation Reduction Act as well as selected, expired, and expiring provisions in this letter. Please contact our firm if you would like an update on current legislation and how it could affect you.

HIGHLIGHTS OF TRADITIONAL YEAR-END TAX PLANNING TECHNIQUES

We all know the last several years have been anything but normal. In most years, a traditional year-end tax planning strategy would include reducing your current year taxable income by deferring taxable income into later years and accelerating deductions into the current year. This strategy is particularly beneficial where your income tax rate in the following year is expected to be the same or lower than the current year. Consequently, in the following discussion we include traditional year-end tax planning strategies that would allow you to accelerate your deductions into 2022, while deferring your income into 2023. **Caution!** For individuals who expect their taxable income to be much lower in 2022 than in 2023, the opposite strategy might be more advisable. That is, for individuals who have experienced a significant drop in income during 2022, a better year-end planning strategy might include accelerating income into 2022 (to be taxed at lower rates), while deferring deductions to 2023 (to be taken against income that is expected to be taxed at higher rates).

Above-The-Line Deductions Can Generate Multiple Tax Benefits. Traditional year-end planning includes accelerating deductible expenses into the current tax year. So-called **above-the-line** deductions reduce both your adjusted gross income and your modified adjusted gross income, while **itemized** deductions (i.e., below-the-line deductions) do **not** reduce either adjusted gross income or modified adjusted gross income. Deductions that reduce your adjusted gross income (or modified adjusted gross income) can generate multiple tax benefits such as reducing your taxable income and allowing you to be taxed in a lower tax bracket and freeing up other deductions (and tax credits) that phase out as your adjusted gross income (or modified adjusted gross income) increases. If you think that you could benefit from accelerating ***above-the-line*** deductions into 2022, consider the following:

$ **Identifying Above-The-Line Deductions.** **Above-the-line** deductions include: Deductions for IRA or Health Savings Account (HSA) Contributions; Qualified Student Loan Interest; Qualifying Alimony Payments (if the divorce or separation instrument was **executed before 2019);** Educator Expenses; and, Health Insurance Premiums for Self-Employed Individuals. **Note! For 2018 through 2025,** the deduction for **moving expenses** has been suspended for most individuals. **Planning Alert!** Generally, active members of the Armed Forces who move pursuant to a military order because of a permanent change of station may still deduct un-reimbursed qualified moving expenses as above-the-line deductions and may exclude the employer reimbursements of those moving expenses from income. In addition, **effective for Divorce or Separation Instruments executed after 2018,** the deduction for **alimony payments** has also been repealed altogether. The good news, however, is that these alimony payments **are no longer taxable to the recipient.** Alimony paid under a divorce instrument **executed before 2019** will generally be grandfathered under the previous rules. **Planning Alert!** If you are currently paying or receiving alimony pursuant to a divorce or separation instrument ***executed before 2019,*** the tax treatment of the alimony payments does not change. That is, if your alimony payments were deductible before 2019, they should continue to be deductible (and includible in the recipient=s income).

$ **Accelerating Above-The-Line Deductions.** As a cash method taxpayer, you can generally accelerate a 2023 deduction into 2022 by *"paying* the deductible item in 2022. *"Payment* typically occurs in 2022 if, **before the end of 2022: 1)** A check is delivered to the post office, **2)** Your electronic payment is debited to your account, or **3)** An item is charged on a *third-party credit card* (e.g., Visa, MasterCard, Discover, American Express). **Caution!** If you post-date the check to 2023 or if your check is rejected, no payment has been made in 2022 even if the check is delivered in 2022. **Planning Alert!** The IRS says that prepayments of expenses applicable to periods beyond 12 months after the payments are not deductible in 2022.

Itemized Deductions. Although **itemized** deductions (i.e., below-the-line deductions) do **not** reduce your adjusted gross income or modified adjusted gross income, they still may provide valuable tax savings. **Starting in 2018 and through 2025,** recent legislation substantially increased the Standard Deduction. For 2022, the Standard Deduction is: Joint Return - $25,900; Single - $12,950; and Head-of-Household - $19,400. Recent legislation has also made certain changes to the following popular itemized deductions:

- **Charitable Contributions.** **Starting in 2018** (with no sunset date), a charitable contribution deduction is not allowed for contributions made to colleges and universities in exchange for the contributor=s right to purchase tickets or seating at an athletic event (prior law allowed the taxpayer to deduct 80% as a charitable contribution). **Planning Alert!** If you think your itemized deductions this year could likely exceed your Standard Deduction of $25,900 if filing jointly ($12,950 if single) and you want to accelerate your charitable deduction into 2022, please note that a charitable contribution deduction is allowed for 2022 if the check is **mailed on or before December 31, 2022,** or the contribution is made by a credit card charge in 2022. However, if you merely give a note or a pledge to a charity, no deduction is allowed until you pay the note or pledge. In addition, if you are considering a significant 2022 contribution to a qualified charity (e.g., church, synagogue, or college), it will generally save you taxes if you contribute *appreciated* long-term capital gain property, rather than selling the property and contributing the cash proceeds to the charity. By contributing capital gain property held more than one year (e.g., appreciated stock, real estate, Bitcoin, etc.), a deduction is generally allowed for the full value of the property, but no tax is due on the appreciation. If instead you intend to use "*loss"* stocks to fund a charitable contribution, you should sell the stock first and then contribute the cash proceeds. This will allow you to deduct the capital loss from the sale, while preserving your charitable contribution deduction. **Caution!** As we mention later in our letter, the 100% of AGI limitation for cash charitable contributions by individuals who itemized deductions expired in 2021.

- **Casualty Losses.** **From 2018 through 2025,** the itemized deduction for personal casualty losses and theft losses has been suspended. However, personal casualty losses attributable to a Federally-declared disaster continue to be deductible. **Planning Alert!** Personal casualty losses generally continue to be deductible to the extent the taxpayer has personal casualty gains for the same year. In addition, casualty losses with respect to property held in a trade or business or for investment are still allowed. **Alert!** **Returns extended to October 17, 2022 are now due February 15, 2023 for Florida, South Carolina, and North Carolina residents and businesses.** On October 5, 2022 the IRS announced that individuals and businesses in North Carolina and South Carolina have until February 15, 2023, to file various federal individual and business tax returns for 2021. The IRS made a similar announcement on September 29 for Florida residents and businesses. In addition, individuals and businesses in these states may deduct losses from Hurricane Ian since Ian has been declared a federal disaster. **Practice Alert!** You have the option to deduct any Hurricane Ian loss not covered by insurance on either your 2021 income tax return or on your 2022 income tax return. You should generally take the deduction on the return which produces the most tax benefit. If you are a resident or have a business in one of these states, please call our firm and we will help you decide if it is better to take any loss on your 2021 or 2022 return. In addition, we will gladly provide more details concerning Hurricane Ian relief. Also, detailed information concerning the Federal Hurricane Ian relief provided for Florida, South Carolina, and North Carolina can be found at https://www.irs.gov/newsroom/help-for-victims-of-hurricane-ian.

- **Medical Expense Deductions.** If you think your itemized deductions this year could likely exceed your standard deduction of $25,900 if filing jointly ($12,950 if single), but you do not expect your itemized deductions to exceed your Standard Deduction next year, you could save taxes in the long run by accelerating elective medical expenses (e.g., braces, new eye glasses, etc.) into 2022. **Planning Alert!** For 2022, you are allowed to take a medical expense itemized deduction only to the extent your aggregate medical expenses exceed 7.5% of your AGI.

- **$10,000 Cap On State And Local Taxes.** **From 2018 through 2025,** your aggregate itemized deduction for state and local real property taxes, state and local personal property taxes, and state and local income taxes (or sales taxes if elected) is **limited to $10,000** ($5,000 for married individuals filing separately). Foreign real property taxes are not deductible at all unless the taxes are paid in connection with a business or in an activity for the production of income. **Planning Alert!** You are still allowed a full deduction (i.e., an above-the-line deduction) for state, local, and foreign **property** or **sales** taxes paid or incurred in carrying on your **trade or business** (e.g., your Schedule C, Schedule E, or Schedule F operations). **Planning Alert!** Most states have enacted legislation allowing partnerships and S corporations to elect to pay state and local income taxes on the partnership's or S corporation's income. If this election is made, the state and local taxes paid by the partnership or S corporation are deductible

by the entity and reduce the income flowing through to the partners or shareholders. This treatment may be beneficial to owners who have state and local taxes above the $10,000 cap discussed above. If the entity pays the state and local income taxes on its income, the owner does not pay tax on the same income. States either give the partners or S corporation shareholders a state credit or deduction on their personal returns for the state and local tax paid or income reported by the entity. Interestingly, the IRS has approved this avoidance of the $10,000 limitation for state and local taxes on partnership and S corporation income. Please call us if you would like to know more about your state's law allowing state and local taxes to be paid by the partnership or S corporation.

$ **Limitations On The Deduction For Interest Paid On Home Mortgage Acquisition Indebtedness.** The Tax Cuts And Jobs Act (TCJA), reduced the dollar cap for **Acquisition Indebtedness incurred after December 15, 2017 from $1,000,000 to $750,000** ($375,000 for married filing separately) for **2018 through 2025.** Generally, any Acquisition Indebtedness incurred on or before December 15, 2017 is grandfathered and will still carry the $1,000,000 cap. **Planning Alert!** If you think your itemized deductions this year could likely exceed your *Standard Deduction*, paying your January, 2023 qualifying home mortgage payment **before 2023** should shift the deduction on the interest portion of that payment **into 2022.**

Postponing Taxable Income May Save Taxes. Generally, deferring taxable income from 2022 to 2023 may also reduce your income taxes, particularly if your effective income tax rate for 2023 will be lower than your effective income tax rate for 2022. Moreover, deferring income from 2022 to 2023 may provide you with the same tax benefits listed previously when you accelerate deductions into 2022 (i.e., Freeing up other deductions and tax credits that phase out as your adjusted gross income or modified adjusted gross income increases; Reducing your modified adjusted gross income below the income thresholds for the 3.8% Net Investment Income Tax; Reducing your household income to a level that allows a refundable Premium Tax Credit; or, Reducing your taxable income to a level that maximizes your 20% 199A Deduction). **Planning Alert!** The deferral of income could cause your 2022 taxable income to fall below the thresholds for the highest 37% tax bracket (i.e., $647,850 for joint returns; $539,900 if single). In addition, if you have income subject to the 3.8% Net Investment Income Tax (3.8% NIIT) and the income deferral reduces your 2022 modified adjusted gross income below the thresholds for the 3.8% NIIT (i.e., $250,000 for joint returns; $200,000 if single), you may avoid this additional 3.8% tax on your investment income. If you are a self-employed individual using the cash method of accounting, consider delaying year-end billings to defer income until 2023. **Planning Alert!** If you have already received the check in 2022, deferring the deposit of the check does not defer the income. Also, you *may not* want to defer billing if you believe this will increase your risk of not getting paid.

TAX PLANNING FOR INVESTMENT INCOME (INCLUDING CAPITAL GAINS AND NIIT)

Planning With The 3.8% Net Investment Income Tax (3.8% NIIT). The **3.8% Net Investment Income Tax (3.8% NIIT)** applies to the Net Investment Income of higher-income individuals. This tax applies to individuals with modified adjusted gross income exceeding the following **thresholds: $250,000** for **married filing jointly; $200,000** if **single;** and **$125,000** if **married filing separately.** The 3.8% NIIT is imposed upon **the lesser of** an individual=s: **1)** Modified adjusted gross income in excess of the **threshold,** or **2)** Net investment income. The 3.8% NIIT not only applies to traditional types of investment income (i.e., interest, dividends, annuities, royalties, and capital gains), it also applies to business income that is taxed to a passive owner unless the passive income is subject to S/E taxes. If you believe that the 3.8% NIIT may apply to you, call our office so we can discuss possible steps we can take before year-end to help reduce your NIIT exposure.

Traditional Year-End Planning With Capital Gains And Losses. Generally, net capital gains (both short-term and long-term) are potentially subject to the 3.8% NIIT. This could result in an individual filing a joint return with taxable income for 2022 of **$517,600 or more ($459,750 or more if single)** paying Federal income tax on **net long-term capital gains** at a **23.8%** rate (i.e., the maximum capital gains tax rate of 20% plus the 3.8% NIIT). In addition, an individual=s **net short-term capital gains** could be taxed as high as **40.8%** (i.e., 37% plus 3.8%), for Federal income tax purposes. Consequently, traditional planning strategies involving the timing of your year-end sales of stocks, bonds, or other securities continue to be as important as ever. **Caution!** Always consider the **economics of a sale or exchange first! Note!** For individuals filing a **joint return** with 2022 taxable income of **less than $83,350 (less than $41,675 if single),** their long-term capital gains and qualified dividends are taxed at a **zero percent rate.** The zero percent rate for long-term capital gains and qualified dividends is particularly important to lower-income retirees who rely largely on investment portfolios that generate dividends and long-term capital gains. **Planning Alert!** If you have substantial capital loss carryforwards coming into 2022, consider selling

enough appreciated securities **before the end of 2022** to decrease your net capital loss to $3,000. Stocks that you think have reached their peak would be good candidates. All else being equal, you should sell the short-term gain (held 12 months or less) securities first. This will allow your net capital loss (in excess of $3,000) to offset your short-term capital gain, while preserving favorable long-term capital gain treatment for later years.

REMEMBER CHANGES TO IRAS AND QUALIFIED RETIREMENT PLANS

Secure Act Imposes A New 10-Year Pay-Out Requirement. Effective for **individuals dying after 2019,** the Secure Act generally requires a decedent=s entire remaining IRA or qualified account balance to be distributed to a named beneficiary, other than an "eligible designated beneficiary", **by December 31 of the 10th year following** the year of the decedent=s death. This required 10-year payout does not apply if the named beneficiary is an "eligible designated beneficiary" which includes the decedent=s spouse, or an individual with a qualified disability, who is chronically ill, or is no more than 10 years younger than the decedent. If the named beneficiary is a child under age 21, the 10-year pay-out requirement does not kick in until the child reaches age 21. **Planning Alert!** If you currently have an estate plan based on the assumption that the non-spouse beneficiaries of your IRAs or qualified retirement plan accounts will be able to take Required Minimum Distributions (RMDs) over their life expectancies, it might be a good time to review and possibly update your estate plan. We will gladly assist you in determining how this new 10-year payout requirement affects your family's tax planning. **New Development!** On February 23, 2022, the IRS issued proposed regulations interpreting this new 10-year rule for beneficiaries that are not "eligible designated beneficiaries." The proposed regulations proposed to require beneficiaries of individuals dying **after April 1st following age 72** to begin required minimum distributions (RMDs) in the calendar year following the year of the decedent's death and also required any remaining account balance of that beneficiary to be distributed to the beneficiary by the end of the 10th calendar year following the year of the decedent's death. However, the proposed regulations allowed beneficiaries who were not "eligible beneficiaries" of a decedent dying **before April 1st following age 72** to take distributions in any manner as long as the entire account balance of the beneficiary was distributed by the end of the 10th calendar year following the year of the decedent's death. Most believed that a beneficiary that was not an "eligible designated beneficiary" was not required to take a distribution prior to the 10th calendar year following the decedent's death whether the decedent died before or after April 1st following the decedent's turning age 72. Even the IRS's own publication seemed to say that was the case. The interpretation in the proposed regulations meant that non-eligible beneficiaries of decedents who died in 2020 or 2021 after the April 1st following the decedent's turning 72 would have a 50% penalty if RMDs were not made in 2021 for beneficiaries of decedents dying in 2020 and in 2022 for decedents dying in 2021. **In October 2022, the IRS announced** that this provision in the proposed regulations will not be effective prior to 2023. In addition, the IRS said that beneficiaries who are not "eligible designated beneficiaries" of individuals dying in 2020 or 2021 after April 1st following age 72 will not be penalized for failing to take an RMD in 2021 or 2022.

SELECTED MISCELLANEOUS YEAR-END PLANNING CONSIDERATIONS

Consider Contributing The Maximum Amount To Your Traditional IRA. As your income rises and your marginal tax rate increases, deductible IRA contributions generally become more valuable. Also, making your deductible contribution to the plan as early as possible generally increases your retirement benefits. As you evaluate how much you should contribute to your IRA, consider the following limitations. If you are married, even if your spouse has no earnings, you can generally deduct in the aggregate up to **$12,000 ($14,000 if you are both at least age 50 by the end of the year)** for contributions to you and your spouse=s traditional IRAs. You and your spouse must have *combined earned income* at least equal to the total contributions. However, no more than **$6,000 ($7,000 if at least age 50)** may be contributed to either your IRA account or your spouse=s IRA account for 2022. If you are an active participant in your employer=s retirement plan during 2022, your IRA deduction is reduced ratably as your adjusted gross income increases from **$109,000 to $129,000** on a joint return **($68,000 to $78,000** on a single return). However, if you file a joint return with your spouse and your spouse is an active participant in his or her employer=s plan and you are not an active participant in a plan, your IRA deduction is reduced as the adjusted gross income on your joint return goes from **$204,000 to $214,000. Caution!** Every dollar you contribute to a deductible IRA reduces your allowable contribution to a nondeductible Roth IRA. The sum of your contributions for the year to your Roth IRA and to your traditional IRA may not exceed the $6,000/$7,000 limits discussed above. For 2022, your ability to contribute to a Roth IRA is phased out ratably as your adjusted gross income increases from **$204,000 to $214,000** on a joint return or from **$129,000 to $144,000** if you are single. **Planning Alert!** Unlike the rule for traditional IRA contributions, the amount you may contribute to a Roth IRA is reduced if your adjusted gross income falls within these phase-out ranges regardless of whether you or your spouse is a participant in another retirement plan.

IRS Increases Standard Mileage Rates Effective July 1, 2022. The standard mileage deduction rate for your deductible business miles was increased from 58.5 cents per mile to 62.5 cents per mile effective July 1, 2022. In addition, the rate for medical and moving mileage increased from 18.0 cents per mile to 22.0 cents per mile. **Planning Alert!** Be sure to keep proper records for business, medical/moving, and charitable mileage for use as a possible deduction for 2022.

The 20% 199A Deduction For Qualified Business Income. Don=t overlook the **20% Deduction** under **Section 199A (20% 199A Deduction)** with respect to **Qualified Business Income, Qualified REIT Dividends,** and **Publicly-Traded Partnership Income.** The 20% 199A deduction does not reduce your adjusted gross income or impact your calculation of self-employment tax. Instead, the deduction simply reduces your taxable income (regardless of whether you itemized deductions or claim the standard deduction). In other words, the 20% 199A Deduction is allowed ***in addition to*** your itemized deductions or your standard deduction. **Note!** The 20% 199A Deduction **expires after 2025!** It is not feasible to provide a thorough discussion of the 20% 199A Deduction with respect to **Qualified Business Income (QBI)** in this letter. However, if you own an interest in a business as a sole proprietor, an S corporation shareholder, or a partner in a partnership, you are a very good candidate for the 20% 199A Deduction. If you want more information on the 20% 199A Deduction, please call our firm and we will be glad to provide you with more details.

Gift And Estate Tax Planning. For 2022, a donor can **gift $16,000** to each donee. It is not a taxable gift to the donor and gifts are not included in the recipient's income. That exclusion amount will **go to $17,000 in 2023. Planning Alert!** Using the annual gift tax exclusion is an effective tool to move assets out of your estate without creating any gift tax.

IRS Advises Taxpayers To Check Withholding Now To Avoid Surprises Later. In a recent news release the IRS reminded taxpayers that taxes are a "pay as you go" system where taxes are paid throughout the year through salary withholding and/or quarterly estimated tax payments. In addition, the IRS encourages taxpayers to use its Tax Withholding Estimator at https://www.irs.gov/individuals/tax-withholding-estimator to ensure they have the correct amount of taxes paid-in before December 31st. **Planning Alert!** It is especially important to review your withholding if you have had a significant event occur during 2022 such as a job change or loss, additional income stream, marriage, divorce, etc. If you believe your tax liability has been affected because of a significant event, and you have questions, please call our firm so we can discuss.

Consider An Identity Protection PIN For Filing Tax Returns. An Identity Protection PIN (IP PIN) is a six-digit number that takes the place of an individual's social security number on the individual's income tax return. Previously, IP PINs were only available to victims of identity theft and individuals in select states who were not victims of identity theft. Beginning in 2021, individuals are able to voluntarily opt into the IP PIN program as a proactive way to protect themselves from tax-related identity theft. Individuals who wish to receive an IP PIN must pass a rigorous identity verification process. In addition, spouses and dependents are eligible for an IP PIN if they can pass the identity proofing process. Individuals wishing to obtain an IP PIN should use the online "Get an IP PIN" tool. If an individual does not already have an account on IRS.gov, the individual must register to validate the individual's identity. Also, an IP PIN is valid for one calendar year. Therefore, an individual will be issued a new IP PIN each year. If you would like more information about IP PINs, please visit the IRS website at https://www.irs.gov/identity-theft-fraud-scams/get-an-identity-protection-pin.

HIGHLIGHTS OF PROVISIONS INCLUDED IN THE INFLATION REDUCTION ACT OF 2022

On August 16, 2022, President Biden signed the Inflation Reduction Act of 2022. The following is a summary of selected provisions included in the Inflation Reduction Act that could impact your 2022 tax planning.

Extension Of American Rescue Plan Act Premium Tax Credit Provisions Through 2025. The American Rescue Plan Act modified the tables for calculating the Premium Tax Credit. The modification results in a greater Premium Tax Credit than for years prior to 2021. In addition, The American Rescue Plan Act removed the provision denying the Premium Tax Credit where household income exceeded 400% of the Federal Poverty Line. For example, according to the Congressional Budget Office, a 45-year-old single individual with income of $58,000 (450% of the FPL) in 2021 would not have been eligible for the Premium Tax Credit under pre-American Rescue Plan Act law. Under the American Rescue Plan Act, that individual would be eligible for a PTC of about $1,250 for 2021. Both of these provisions were extended by the Inflation Reduction Act of 2022 through 2025.

<u>Credit For Energy Efficient Residential Property Improvements.</u> The credit for residential energy property improvements made to an individual's principal residence was 10% of the amount paid or incurred up to a maximum $500 lifetime limitation. The credit expired at the end of 2021. The Inflation Reduction Act extends this credit through 2022 and provides a new expanded credit for qualifying improvements to residential property after 2022 and before 2032. The Inflation Reduction Act provides an increased 30% credit generally with an **annual $1,200 limitation** for qualified energy efficient residential property improvements after 2022 and before 2032. These improvements must be made to a dwelling owned and used by the taxpayer. **<u>Planning Alert!</u>** If you are planning to make residential property improvements qualifying for the new increased credit, you may want to wait until 2023 since the credit could be much larger. In addition, you would receive no credit in 2022 if you have already exceeded your $500 lifetime limitation for energy efficient improvements prior to 2022.

<u>Modification To Existing EV Credit Qualification For Vehicles Purchased After August 16, 2022.</u> Changes made by the Inflation Reduction Act to the electric vehicle (EV) credits are generally effective for vehicles purchased after 2022. However, for an EV purchased after August 16, 2022, the IRA requires the final assembly of the vehicle to occur in North America to qualify for the credit. However, this "final assembly requirement" does not apply where the taxpayer entered into a written binding contract to purchase a new qualifying EV before August 16, 2022 but took possession of the EV on or after August 16, 2022. **<u>Planning Alert!</u>** IRS says *"If you purchase and take possession of a qualifying electric vehicle after August 16, 2022 and before January 1, 2023, aside from the final assembly requirement, the rules in effect before the enactment of the Inflation Reduction Act for the EV credit apply (including those involving the manufacturing caps on vehicles sold)."*

<u>New "Clean Vehicle Credit" For Vehicles Purchased After 2022 And Before 2033.</u> The IRA amends the law to provide credits for "Clean Vehicles" after 2022 and before 2033. A "Clean Vehicle" includes a qualified electric vehicle (EV) and a qualified fuel cell motor vehicle. Taxpayers are allowed a credit for a qualifying EV. The **maximum credit amount is $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. **<u>Caution!</u>** 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. **<u>Planning Alert!</u>** The IRA removes the disallowance of the EV credit when the number of electric vehicles sold by a manufacturer exceeds 200,000, effective **for vehicles sold after December 31, 2022.** Because of this 200,000 limitation, vehicles manufactured by GM and Tesla do not qualify for a credit in 2022. However, if these vehicles meet the requirements of the new law, they will qualify if purchased in 2023. So, if you are planning on purchasing an electric vehicle manufactured by Tesla or GM, it may pay to wait until after 2022**.** **Please call our firm** if you need additional information and assistance.

<u>Extension And Increase In Individual Energy Credit For "Qualified Fuel Cell Property," "Qualified Small Wind Energy Property," "Qualified Solar Electric Property," "Qualified Solar Water Heating Property," "Qualified Geothermal Heat Pump Property," And "Qualified Biomass Fuel Property."</u> The credit for: **1)** *"Qualified Fuel Cell Property Expenditures*," **2)** *"Qualified Small Wind Energy Property Expenditures*," **3)** "Qualified Solar Electric Property *Expenditures*," **4)** "Qualified Solar Water Heating Property *Expenditures*," **5)** *"Qualified Geothermal Heat Pump Property Expenditures,"* and **6)** "Qualified Biomass Fuel Property *Expenditures*" was amended by the Consolidated Appropriations Act to be a 26% credit for qualifying property expenditures in 2021 and 2022, with a reduction of the credit to 22% for qualifying property expenditures in 2023 and no credit for expenditures after 2023. The IRA provides that for qualified property expenditures after 2019 and before 2022, the credit is 26%. For qualified property expenditures after 2021 and before 2033, the credit is 30%. In addition, "Qualified Biomass Fuel Property" only qualifies for the credit before 2023. For property expenditures after 2022 "Qualified Battery Storage Technology Expenditures" replace "Qualified Biomass Fuel Property Expenditures" as property qualifying for the credit. **<u>Note!</u>** This credit for the above qualified energy property applies to expenditures by individuals for the above qualified energy property installed in a dwelling located in the United States and used as a residence by the taxpayer.

<u>HIGHLIGHTS OF INDIVIDUAL PROVISIONS THAT EXPIRED AFTER 2021</u>

<u>Increased Child Tax Credit From $2,000 To $3,000 For Children Age 6 Through 17 And $3,600 For Children Under Age 6.</u> Beginning in 2022, the child tax credit reverts to **$2,000** for a qualifying child and **$500** for dependents other than qualifying children. The 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. In addition, the credit is no longer fully refundable. **Planning Alert!** If you are able to take the child credit in 2022, make sure you take this into consideration when estimating your 2022 tax liability.

Refundable And Enhanced Child And Dependent Care Credit. Beginning in 2022, the maximum expenses eligible for the child and dependent care credit revert to **$3,000 for one** qualifying individual and **$6,000 for two** or more qualifying individuals. In addition, taxpayers with adjusted gross income **over $43,000** will receive a maximum **20% credit of $600** for one qualifying individual and **$1,200** for two or more qualifying individuals. Also, the **credit is no longer refundable. Note!** The advance payment of projected child tax credits **expired** on December 31, 2021.

Deduction For Charitable Contributions In 2021 For Individuals Who Do Not Itemize. For 2021, the Consolidated Appropriations Act provided an additional standard deduction for cash charitable contributions by individuals who did not itemize. The maximum deduction was $300 for singles and for married individuals filing separately and $600 for married individuals filing joint returns. This deduction **expired** for taxable years beginning after 2021.

Increased Itemized Deduction For Charitable Contributions. The 100% of AGI limitation for cash charitable contributions by individuals who itemized deductions **expired** after 2021.

FINAL COMMENTS

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LifeTime Asset & Tax Management | 801 Corporate Center Drive, Suite 110 | Raleigh, NC 27607

919-465-1265 | www.lifetimetaxmanagement.com

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