



Happy New Year 2023!

In some ways, 2022 year was a year of correction, while in other ways, it became a year of shocking revelation with the phasing out of previous COVID credits, the devaluation of retirement plans and other securities and of course the typical messes in Washington and Hartford we've grown accustomed to. Most could see a decrease in tax refunds with some of the old COVID credits and rebates reduced or no longer on the table. On the plus side, there were relatively few NEW laws and changes which may make our tax planning a little easier on the heart and wallet.

We are hopefully at the tail end of dealing with significant Government meddling in the tax code including credits and subsidies that have in some ways buoyed our society but increased our national deficit and in other ways hampered and spoiled our taxpayers. It has made tax preparation difficult to say the least. In any event, we are still not out of the COVID woods but continue to see signs of tax normalcy slowly develop as these one-time changes are phased out in 2021. The tax law changes for this year are mostly unfortunately detrimental because of the phase outs and eliminations but do have some credits and benefits.

* NEW 2022 TOPICS *

CHILD TAX CREDIT 🤔

As you may recall last year, the Child Tax Credit was increased to \$3,600 for children 0-5 years old and \$3,000 for those 6-17 years old. That credit drops back down to \$2,000 per child up to 16 years old. So, the 17-year old's are left out this time. In addition, thankfully we did not see any advanced payments of this credit as was done in the latter half of 2021 that we had to chase down and reconcile as many taxpayers could not provide accurate data.

BUSINESS MILEAGE DEDUCTION

Each year the tax deduction for business related travel fluctuates. Usually, it is based on the volatility of crude oil prices and is one set rate for the entire year. This year, however, due to the spikes in gas prices, the mileage rate is split in two – travel from Jan-Jun 30, 2022, will be \$0.58/mile and the rate from Jul-Dec, 2022 is \$0.62/mile. Any qualifying taxpayer must separate their mileage traveled in these two timeframes.

DEPENDENT CARE CREDIT 🤔

Another one-off change was the dependent care credit. In 2021 an astounding 20-50% of up to \$8,000 for one child and \$16,000 for 2 or more children was available for credit. This year, the maximum credit drops from 50% to 35% and the credit is allowed for only up to \$3,000 vs \$8,000 of expenses and the income level also drops off sharply.

STIMULUS PAYMENTS 🤔

Gone. After 3 rounds of stimulus payments over the last 2 years due to COVID, **there are no payments like this in 2022**. One less thing to track down.

ANNUAL ADJUSTED TAX BRACKETS 😄👍

As is customary, the tax brackets expand slightly to keep pace with inflation and cost of living. For 2022, the brackets are below.

Tax Rate	Taxable Income (Single)	Taxable Income (Married Filing Jointly)	Taxable Income (Head of Household)
10%	Up to \$10,275	Up to \$20,550	Up to \$14,650
12%	\$10,276 to \$41,775	\$20,551 to \$83,550	\$14,651 to \$55,900
22%	\$41,776 to \$89,075	\$83,551 to \$178,150	\$55,901 to \$89,050
24%	\$89,076 to \$170,050	\$178,151 to \$340,100	\$89,051 to \$170,050
32%	\$170,051 to \$215,950	\$340,101 to \$431,900	\$170,051 to \$215,950
35%	\$215,951 to \$539,900	\$431,901 to \$647,850	\$215,951 to \$539,900
37%	Over \$539,900	Over \$647,850	Over \$539,900

CAPITAL GAINS and NET INVESTMENT INCOME

Short-term capital gains are taxed the same as ordinary income which follow the rates as the above shown tax brackets. Short-term capital gains are those sale of assets held less than one year. Long-term capital gains are sale of assets beyond one year and follow a lower tax rate. Some slight changes for the current year are in the table below:

2022 Long-Term Capital Gains Tax Rate Thresholds

Capital Gains Tax Rate	Taxable Income (Single)	Taxable Income (Married Filing Separate)	Taxable Income (Head of Household)	Taxable Income (Married Filing Jointly)
0%	Up to \$41,675	Up to \$41,675	Up to \$55,800	Up to \$83,350
15%	\$41,675 to \$459,750	\$41,675 to \$258,600	\$55,800 to \$488,500	\$83,350 to \$517,200
20%	Over \$459,750	Over \$258,600	Over \$488,500	Over \$517,200

The additional 3.8% surtax on net investment income occurs for those with high AGI (\$125K for Single; \$250K for Married Joint filers; \$200K for head of household etc.)

CASH CHARITY DEDUCTION FOR STANDARD FILERS 🤔

This too is shamefully gone. For 2 years during COVID, standard deduction filers could claim a small above-the-line deduction for cash contributions - \$300 for single filers and \$600 for married.

VENMO AND PAYPAL 😄

As much fuss that was made about Venmo, PayPal and others intending to send 1099-K that report income for just about everything you might have been paid for, the government in a last-minute effort, postponed that reporting requirement for one year. The prior thresholds of 200 transaction AND \$20,000 processed will be adhered to so no worries - for now. However, you still may receive a 1099-K, and if it is for non-business transactions, we can ensure that you are not taxed (ie. Meal reimbursements or sharing and other personal transactions). Please be sure to include any 1099-K's you receive with your tax paperwork.

🌟 ENERGY CREDITS 😄

This is big news and a marked improvement from prior year. It is a stimulus to "go green" for many taxpayers and invest in more efficient non-business property and our future. The non-business energy credit has officially been extended through **2032**, and the name of the credit has been changed to the **energy efficient home improvement credit**. The credit has been expanded in several ways:

1. It may be claimed for any taxpayer owned home, such as a second home like **vacation property** it is not limited to a principal residence.
2. The amount of the credit has been raised to 30% of qualified expenditures (with a cap of **\$600** per item for most improvements); the former limit was 10% (with a \$500 cap).
3. **The biggest change is that the credit may be claimed each year, not just once in a lifetime which was ludicrous. So now when you come in for your tax appointment, we need to check to see if qualifying expense was made.**
4. The credit may be claimed for home energy audits up to \$150.

5. The one negative is that the credit no longer applies to roofs. Starting in 2025, a taxpayer must obtain a qualified product identification number assigned by the manufacturer. This is usually obtained from the licensed installer.
6. The residential energy efficient property credit applies to solar, electric, wind, and other alternative energy equipment installed on a taxpayer's principal residence or other home. The credit rate, which had been set at 26% for 2022 and was set to decline in 2023 to 22%, **has been increased to 30% through 2032**. Starting in 2023, the credit may be claimed for qualifying battery storage technology with a capacity of at least 3 kilowatt hours.

SOLAR

The incentive to install solar panels to combat the ever-increasing cost of energy has never been stronger. The credit rate was set to be 26% again in 2022 but then begin decreasing each year. However, new legislation passed during the year actually increased it to **30%** thru the year 2032. The caveat to claim the deduction is you must purchase the solar system on your and, not lease it.

NEW ELECTRIC CARS

The previous rule of disallowing the deduction for an electric vehicle because production of 200,000 units has been reached is officially scrapped! This puts Tesla, Toyota and several GM vehicles back in the mix. There are some basic rules that need to be followed for eligibility

1. Final assembly must be in North America (effective August 2022) – check with your dealer on this requirement especially for mid-year 2022 purchases.
2. Starting in 2023, the purchase price limits must \$80K or less for trucks and SUV's and \$55K for passenger vehicles. This is based off the MSRP – so please check your invoice.
3. Lastly, there is an income cap on purchasers of new electric vehicles which is limited to \$300K for Married; \$225K for head of household and \$150K for all other filers of Modified Adjusted Gross Income (MAGI).

USED ELECTRIC CARS

Starting for 2023, used electric vehicles also qualify for a credit, albeit lower than new car.

1. There are income limits here as well (half of the new car limits)
2. The vehicle's **sale price** cannot exceed \$25,000 – MSRP not applicable to used cars

3. The credit can be claimed once ever 3 years only
4. If all the above are met, the maximum credit is equivalent to the lesser of 30% of the purchase price or \$4,000

As an addendum to the electric cars, taxpayers who install charging stations in their homes starting in 2023 may also be able to claim the alternative fuel refueling property credit The credit amount is the lesser of 30% of the cost of the property, or \$1,000. This credit runs through 2032.

BUSINESS CREDITS

Many of our small businesses suffered greatly during the pandemic. Payroll Protection Programs (PPP) with forgiveness were launched as were Small Business Loans (EIDL) at extremely favorable rates. Another program was the Employee Retention Credit – rules and conditions changed several times this year. We are still diligently pursuing every dollar a business which suffered harm during the pandemic and still had payroll expense is entitled to. If you have business that you think might qualify and you want us do an analysis, please contact our office so we can help you.

2022 Standard Deductions

The new standard deduction set by the IRS is as follows:

- \$12,950** for single filers or for married couples filing separately
- \$19,400** for heads of households
- \$25,900** for married couples filing jointly or surviving spouses

These continue to inch up ever year.

In addition, if you are aged 65 or over, there is an additional standard deduction of **\$1,400** per person on a married filing joint tax return or **\$1,750** for head of household or single filer.

*** SECURE ACT 2.0 ***

On December 23, 2022, the President did in fact sign off on a huge \$1.7 trillion dollar budget bill. This bill includes over 100 changes, but most effective in future years. Immediately the most prominent changes are:

- **RMD Age Change** – the age to take out the **Required Minimum Distribution** gets bumped from 72 to 73 effective January 1, 2023.
- **Reduction in RMD penalty** – the Act decreases the penalty for missed RMD from 50% to 25% of the shortfall.

Other provisions that affect retirement accounts go into effect in future years such as emergency disbursements without penalty from retirement accounts, part-time worker participation in retirement accounts, higher catch up retirement contributions.

* CONNECTICUT UPDATES *

There is some good news specifically for State of Connecticut filers.

- **Property tax credit:** the property tax credit was increased from \$200 to \$300 and no longer limits it to persons aged 65 and over.
- **Pension and Annuity income:** Depending on income thresholds, eligible persons will be able to subtract from their adjusted gross income 100% of pension and annuity income when calculating their Connecticut income tax. Future legislation will expand it to IRA distributions.

* OFFICE UPDATES *

Staffing Updates – As we continue to grow, we have added more expertise and staff to manage our increased workload. Your primary tax contact for individual tax returns will still be Pete or Stacey. For business tax returns it will be Pam. We have added more hands to get more tax returns filed timely and less extensions so you may be hearing from Chris or Ryan as well. We

have added a new administrator by the name of Kathy who takes care of our calendar and is the point person for your scheduling needs.

Tax Appointments – We have transferred our calendar to 2023 mimicking our 2022 appointments for the most part. **You do not need an appointment if you are a drop off client.** **Your taxes will be prepared and filed within 10-14 days.** Those with appointments will be getting a prescheduled card and a text will be sent to your phone reminding you of your appointment approximately 48hrs ahead of time. We continue to provide a remote appointment option to those who prefer it instead of in person. Please indicate the preferred method when you return your card. Please make every effort to keep your appointment as our schedule is very tight and rescheduling options are limited.

- **REMOTE APPOINTMENTS** – if you prefer a remote appointment, your data must be received by our office for preparation 48hrs before your appointment. You can upload docs to your portal (ask for access if you don't have that), email your documents, drop off or use a mail service. This is critical so that our remote session is used efficiently. Please be ready at the time of your meeting and we will call you.
- **IN PERSON APPOINTMENTS** – at the time of your appointment, please come prepared with as much of your materials as possible. Keep your appointment, even if you do not have 100% of your tax documents. Check our website for tools to help you organize and prepare your tax documents. Refer to last year's packet for documents that you provided.

COMMON SENSE – if you don't feel good or have been exposed to COVID-19 or any seasonal cold or flu variant please do NOT come to the office at all. We will make other accommodations to get your taxes processed. You will NOT LOSE your place in line.

Secure Portal – We continue to encourage those that wish to use the portal for upload and exchange of documents to do so. This storage solution will continue to be used in the coming years as the primary secure information exchange utility **for absolutely no charge**. If you are not a user of the portal, and would like to access it, simply call our office, or email us so that we can email you an activation link!

Website- on our website you can find helpful tools such as Tax Appointment Reminder List, a Data Organizer and various guides to help with your document assembly. We can also provide a personally tailored Client Organizer based on prior year's data that can be emailed to you and is fillable right online.

Fees – we have kept fees consistent and fair for the last few years while still providing the best service possible. To that, we do require payment of your fee **BEFORE** your tax return is electronically submitted. We cannot and will not file your tax return without payment.

We accept several forms of payment including cash, check and credit card, Apple and Android pay, **and pay on our website www.innovative-tax.com.**

Forms – both the annual engagement letter (which gives us permission to prepare your tax return) and the electronic filing form(s) 8879 (which authorizes us to file your return) must be signed and returned to us **BEFORE** your tax return is electronically submitted. These are IRS rules, not ours.

Tax Return Copy – our preferred delivery method of your filed tax return beginning this year will be digital, either portal or email. We still can provide a paper copy upon request.

Extensions – a \$50 fee will apply to any client who requests that we file an extension on their behalf. Extensions MUST BE REQUESTED via e-Mail or phone – **we will not file one automatically on your behalf.**

Remember, an extension gives extra time to file the return but any tax that you owe is still due by the deadline and will be subject to penalties and interest if paid after April 15th. I cannot stress this enough as there was a fair amount of confusion last year. Some taxpayers were caught off-guard in thinking that an extension allows you a free pass to pay later – **IT DOES NOT.** If you owe or think you will owe, you must **GUESS** and send in payment by April 15th. That shows the IRS that you made an effort to pay your tax obligation in by the deadline and cuts down on penalties and interest significantly.

*** DEADLINES ***

Important Tax Deadlines

- Late January 2023 – the IRS begins accepting e-filed Individual Income Tax Returns
- March 15, 2023 – Partnership and S-Corp Tax Returns due
- April 15, 2023 – Individual Income Tax Returns due
- May 15, 2023 – Non-Profit Income Tax Returns due

To accommodate our paper flow and meet expectations, those that absolutely need their tax return filed by the due date without extension must observe the schedule below. This does not include appointment clients:

Important INTERNAL INNOVATIVE Deadlines

- January 31, 2023 – deadline to process 1099's for your business is due
- March 1, 2023 – deadline to provide Partnership and S-Corp Tax data due
- March 15, 2023 – deadline to provide Individual and C-Corp Tax data due

Adhering to these deadlines ensures timely filing of your tax returns. Please be mindful that everyone gets a turn in line, but guidelines need to be followed.

If you have any questions, please feel free to call 203.775.0605 or email us and we will be happy to answer them. Email is by far the best way to reach us during tax season – we make every effort to answer them within 24 hours.

Our email addresses are as follows:

Pete – pete@innovative-tax.com
Stacey – stacey@innovative-tax.com
Pam – pam@innovative-tax.com

As always, we thank you for your business and wish you a healthy and prosperous new year.

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