JANUARY 2023 NEWSLETTER

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Happy Holidays!

2022 has been a relatively quiet year for tax law changes, but as always, we wanted to provide updates of several changes that may affect your tax situation and year-end planning. New 2023 inflation adjusted numbers were released in late October for various filing thresholds and contribution limits, so those are included here as well. Please continue to reach out to us as tax/financial decisions come up throughout the year. We are happy to help. Happy Holidays to you and your family!

Cypress Tax Secure Online Portal – TaxDome

Many of you have already logged in and are utilizing our new secure tax portal, TaxDome. It was available for all clients for the 2021 tax filing season and was a great success. We now encourage all clients to establish a login, if you have not already. You now can receive and view tax returns, upload tax documents, sign your returns via E-Signature and even pay your Cypress invoice via electronic ACH via the portal. Keep in mind that any payments made through the portal must be paid from a US bank account. We are also happy to help you through the upload process or navigating the system if needed. Just let us know!

Tax Payment Processing

We experienced many issues this year with the IRS not opening/depositing mailed checks, applying check payments to the wrong accounts, and charging high penalties for bounced checks. Also, some states, including PA and CA, are now charging a penalty for “large” tax payments made via check, and are moving more and more taxpayers to their online payment systems. For all of these reasons, we are now recommending that tax payments be made online if possible, directly to the IRS or your state revenue agency. The IRS DirectPay website www.irs.gov/payments/direct-pay is easy to use and does not require log in. Most income taxing states also have a direct pay website you can find through the various state revenue websites. For example, PA estimates and tax payments can be made at www.mypath.pa.gov. Please save the confirmation page and number of each payment in case of future questions.

Timing of tax payments is also becoming more important due to higher interest rates and continually rising inflation. We recommend you stick to the quarterly deadlines for payments at a bare minimum, and adjust your withholdings to cover as much of the tax payments as possible automatically. A new W-4 may be necessary in some cases. Bonuses are typically underwithheld for many employees, so it is best to send us paystubs to review as soon as you receive large bonus income. The current interest rate for underpayments to the IRS is 6% per year, up from 3% for 2021.

Environmental Initiative and Credits

During last tax season, Cypress Tax was able to cut down on our paper usage significantly. We received many of your tax documents directly from you via upload on the portal. More than 30% of our clients requested “electronic tax return delivery only” (no paper) when possible, via the TaxDome portal. If you would still like to receive a paper copy of your tax returns or organizer and have not already notified us, please let us know.

Credits for solar energy improvements to your home and purchases of certain electric vehicles remain available and were recently adjusted under new tax laws. The Residential Clean Energy Credit was increased to 30% retroactively for 2022 and for tax years through 2032 for qualified expenses, including electric panels and related equipment. Home energy audits, exterior doors, exterior windows, water heaters, oil furnaces, hot water boilers, and heat pumps may also qualify for this credit depending on their efficiency and source of power.

The credit for purchases of qualified electric vehicles of up to $7,500 is still available for many new vehicles in tax year 2022. An updated list of qualified vehicles is available on irs.gov https://www.irs.gov/businesses/irc-30d-new-qualified-plug-in-electric-drive-motor-vehicle-credit . Keep in mind, the 2022 credit is only available for the first 200,000 cars produced by each manufacturer and, as a result, credits are not available for Tesla nor GM purchases this year. Toyota is also quickly approaching this cap.

The electric vehicle credits were significantly modified for tax years starting in 2023, and the 200,000 car cap per manufacturer is removed. For purchases of NEW electric vehicles, credits will not be allowed for taxpayers with taxable income above $150k (Single) or $300k (MFJ), and no credits will be allowed on “luxury vehicles” costing more than $55k (cars), and $80k for trucks/SUVs/vans. The other large caveat is that the vehicle battery must be made in North America and must be a certain size in order to qualify for the max $7,500 credit. Starting in 2024, buyers can take the credit as a discount at the time of purchase instead of on their tax return. For USED electric vehicle purchases starting in 2023, a new credit of up to $4,000 is allowed if the vehicle costs $25,000 or less and is more than two years old. These cars don’t have to comply with the made in North America requirements. https://electrek.co/2022/10/31/which-electric-vehicles-still-qualify-for-us-federal-tax-credit/#h-what-electric-vehicles-could-qualify-under-the-latest-tax-credit

Remote Working and Moving Between States

In response to COVID, remote working and the number of people moving out of cities and taxable states has increased dramatically. This can create extremely complex (and sometimes contentious) state and local tax issues if more than two states or cities are involved. A critical factor to to keep your state and local tax at a minimum and avoid notices, is to notify your employer immediately of your new address once it becomes your primary residence or remote work location, and have them adjust your withholding accordingly. Each situation is unique and please do your best to keep us informed as well, since we will need all of the facts to properly prepare your tax return.

It is important to establish your residency in any new state that you officially move into and release your residency from the previous state to avoid potential double taxation in the case of two states claiming you as a resident. Driver’s licenses are required by law to be updated within 14 days of any change in address by most states, but this is not actively enforced by the DMVs. Along with driver’s license updates, you should also update voter’s registrations, workplace HR registries, bank/investment account addresses, and partnership interest addresses as soon as possible after your move. This may affect your K-1 reporting (if any) and 1099-supplemental state info (if any) that we will need to file your tax returns properly.

Child Tax Credit reverts to pre-2021 law

The Child Tax Credit was significantly increased and expanded for 2021, but has now returned to previous amounts. For 2022, this credit applies to taxpayers who have children under 17 on 12/31/22, with a maximum credit of $2,000 per child. Children over 17 and still in college may qualify for a $500 “other dependent” credit as well. Keep in mind, this credit is subject to phase-out as your income rises.

Dependent Care Credit reverts to pre-2021 law

The credit for qualified dependent care expenses was also significantly increased for 2021, but is reverted to previous amounts as well. It is important to note that the credit only applies to children under 13 for days when all parents are working, and does not cover expenses for sports nor overnight camps. The credit ranges from 20% to 35% of eligible expenses up to $3,000 for one child and $6,000 for two or more for a maximum credit of $2,100. Phase out of the credit starts at AGI of $15,000 and is fully phased out at $438,000. W-2 employees can also exclude up to $5,000 of their wages through a dependent care reimbursement plan in 2022 and 2023 which we highly recommend as it saves tax at your top marginal tax rate.

Online Wagering & Sports Betting

We have seen a large increase in online gambling from clients over the last few years and unfortunately, the tax reporting of these transactions is significantly lacking. In order to report this income/loss correctly on your tax forms, we need a report that shows your total winnings for the year and total “losses” or wagers, along with any 1099-G forms that may have been issued to you. Many of the online apps can provide this report easily on a phone application and you can upload screenshots to us as needed through our TaxDome portal showcasing the needed amounts. Also, keep in mind that losses are only allowed as itemized deductions and cannot generally be directly netted against winnings. Therefore, even if you breakeven or lose money overall, taxes may still be due.

New 1099-K Reporting Threshold

There is a new provision for 2022, requiring payment processors such as Paypal, Stripe, and Venmo to report any payments processed for you totaling $600 in the calendar year to the IRS. The previous threshold was $20,000 or 200 total transactions. If you pass over the threshold using a payment processor app they will issue you a 1099-K for tax year 2022 and then we will need an explanation of what the payments were processed for in order to report it somewhere on your tax return. These are requirements for “commercial transactions” only (goods/services) and not for payments between friends and family. Paypal and Venmo both have a way to tag your transaction as either friends/family or goods/services.

Zelle, however, does not claim to be a payment processor and is not planning to issue 1099-Ks for 2022, claiming that they only facilitate messaging between banks, and that the banks themselves actually handle all processing of the payments. It is your responsibility as the taxpayer to identify any Zelle payment that is taxable, the same way you would do that with cash as the default for Zelle payments nontaxable treatment. Please keep this in mind if you are processing any business income through Zelle, since you will be unlikely to receive any tax report.

Cryptocurrency Transactions

Many clients have invested in cryptocurrencies over the last few years, and official 1099-Bs will be required to be issued for sales starting in 2023 by the various cryptocurrency platforms. Even without this official reporting for 2022, like other sales, recognized gains and losses from sales of cryptocurrency must be reported on your tax return. Therefore, if cryptocurrency was sold in 2022, please request a gain/loss report from your investment platform of the sales so we can include them in your tax return. Coinbase and TaxBit can provide these reports easily, but many of the other applications will require a third party to generate the proper forms for you. Also, keep in mind wash sale rules regarding loss transactions still do not apply to cryptocurrency at this time, but proposed changes may end this opportunity.

TAX PLANNING OPPORTUNITIES

Charitable Donations

Cash charitable donation deductions are limited to 60% of your AGI in 2022. Charitable deductions for appreciated property are limited to 30% of AGI. Since many taxpayers are no longer itemizing their deductions because of high standard deductions, we recommend bunching your charitable donations into one tax year to maximize deductibility. For example if you are married and typically donated $10k to charity every December, you could wait until January this time to make your donations, and then donate another $10k in December 2023. This would give you $20k of deductible donations in 2023, likely causing you to itemize, and you could do this in alternating years. Otherwise, that $10k each year would likely not be deductible to you at all.

If you have a larger charitable intent, donor advised funds (DAFs) should be considered to allow even further bunching of deduction resulting in larger tax savings. DAFs are also very effective to take advantage of deductions in years where your marginal tax rate may be higher. Gifts of appreciated stock also work quite well for contributions to DAFs.

Qualified Charitable Deductions (QCDs)

Taxpayers age 70 ½ and older can make up to $100,000 per year of contributions directly to charity from their IRAs. This technique allows a direct offset of the charitable contribution against the taxable distribution from the IRA. For itemizers, there is generally no impact on taxable income other than indirect benefits from a reduction in adjusted gross income which can impact the taxable portion of Social Security, the Medicare IRMAA adjustment, and many other phase-out provisions based on AGI. For non-itemizers, in addition to the indirect benefits of reduced AGI, there is also effectively a full deduction for the charitable contribution via offset against the IRA distribution. QCDs also count toward required minimum distribution (RMD) requirements, which is an additional benefit.

Gain Exclusion on Qualified Small Business Stock

An exclusion of cumulative gain of up to the greater of $10 million or 10 times the cost basis of the stock continues to be allowed on sales of Qualified Small Business Stock (QSBS) held more than five years. The 100% exclusion applies to gains on purchases after 9/27/10, 75% on purchases from 2/17/09-9/27/10, and 50% on purchases before 2/17/09. Gifting strategies can be utilized to maximize the exclusion further if the gain exceeds the limitations.

Year-Round Tax Loss Harvesting

Many brokers contact clients at year-end to consider sale of positions which have an unrecognized loss to reduce taxes. Keep in mind, this can be done at any time during the year and is an excellent way to increase the return on your investments by reducing taxes. As a result of large market fluctuations during 2022, many portfolios may have unrecognized losses which can be harvested before year-end. Net capital losses of only $3,000 can be used against current year ordinary income but all capital gains can be offset and any excess can be carried forward indefinitely. Keep in mind, wash sale provisions prevent repurchase of positions sold at a loss within 30 days or less.

Adding Children to Payroll

Self-employed taxpayers can realize substantial tax savings by hiring their children. Adding children to the payroll can take advantage of lower income tax brackets, better utilize education credits, save FICA taxes and allow for Roth contributions, which can compound for many years. If you are self-employed and have dependent working age children, consideration should be given to this planning strategy.

529 Education Savings Accounts

Section 529 education savings accounts remain a tax effective way to save for college and graduate school, but the funds are now also available to be used for up to $10,000 per year for private school tuition and books in primary and secondary school without incurring federal income tax on the transaction. 529 accounts allow tax-free growth as long as the funds are eventually used for education related expenses, and can even be transferred person to person for future generational education spending. Many states including PA, NY, and SC also allow a state income tax deduction for 529 contributions. Also, tax-free distributions from 529 accounts of up to $10,000 per lifetime can now be made for student loan payments (including principal and interest) for the taxpayer or their siblings.

Roth IRAs

We continue to recommend planning to maximize savings in Roth IRAs. Roth IRAs are particularly tax efficient, as all growth is completely tax-free if distributions are taken more than five years after the contribution date and after age 59½. Roth contributions are allowed for 2022 until 4/18/23 up to the lesser of earned income or the amounts below if modified AGI is below $129,000 Single or $204,000 Joint. Maximum contributions to other common retirement vehicles are also listed in the table below.

Larger Roth contributions can be made through conversions from existing Traditional IRAs or qualified plans. There is currently no income limit on conversions, but ordinary income tax is due on all pre-tax dollars converted to Roth, so your current marginal bracket and expected marginal bracket in retirement should be considered. After-tax contributions from qualified plans can also be converted without additional tax, but careful planning is needed due to several limitations in this alternative.

For taxpayers with no traditional IRA and income exceeding Roth contribution limits, a ”back door” Roth IRA technique should be considered each year. This involves contribution to a Traditional IRA and immediate conversion to a Roth account.

MAXIMUM DEDUCTIBLE RETIREMENT CONTRIBUTIONS

	2022	Catch-up	2023	Catch-up
Traditional IRA	$6,000	+$1,000 over 50	$6,500	+$1,000 over 50
Roth IRA	$6,000	+$1,000 over 50	$6,500	+$1,000 over 50
401(k)	$20,500	+$6,500 over 50	$22,500	+$7,500 over 50
SIMPLE IRA	$14,000	+$3,000 over 50	$15,500	+$3,500 over 50
SEP IRA / Solo 401(k)	$61,000		$66,000	

Gift Tax
Annual exclusion for gifts up to 16,000 for tax year 2022 and $17,000 for tax year 2023.

Estate Tax
Lifetime exclusion for estate tax is $12.06 million in 2022 and $12.92 million in 2023.

2022 Mileage Deduction Rates *(per mile)*
Medical, Jan-Jun: $0.18
Medical, Jul-Dec: $0.22
Business, Jan-Jun: $0.585
Business, Jul-Dec: $0.625
Charitable, all year: $0.14

2023 Mileage Deduction Rates *(per mile)*
Medical: $0.22
Business: $0.655
Charitable: $0.14

Tax Rates – Ordinary Income

	Single Filers				Joint Filers			
	2022		2023		2022		2023	
Rate	Starts	Ends	Starts	Ends	Starts	Ends	Starts	Ends
10%	$0	$10,275	$0	$11,000	$0	$20,550	$0	$22,000
12%	$10,276	$41,775	$11,001	$44,725	$20,551	$83,550	$22,001	89,450
22%	$41,776	$89,075	$44,726	$95,375	$83,551	$178,150	$89,451	190,750
24%	$89,076	$170,050	$95,376	$182,100	$178,151	$340,100	$190,751	364,200
32%	$170,051	$215,950	$182,101	$231,250	$340,101	$431,900	$364,201	462,500
35%	$215,951	$539,900	$231,251	$578,125	$431,901	$647,850	$462,501	693,750
37%	$539,901	and over	$578,126	and over	$647,851	and over	$693,751	and over

Tax Rates – Capital Gains and Qualified Dividends

	Single Filers				Joint Filers			
	2022		2023		2022		2023	
Rate	Starts	Ends	Starts	Ends	Starts	Ends	Starts	Ends
0%	$0	$41,675	$0	$44,625	$0	$83,350	$0	$89,250
15%	$41,676	$459,750	$44,626	$492,300	$83,351	$517,200	$89,251	$553,850
20%	$459,751	and over	$492,301	and over	$517,201	and over	$553,851	and over

Keep in mind, an additional tax of 3.8% applies to net investment income for adjusted gross income (AGI) over $200,000 Single and $250,000 Joint. Net investment income generally includes interest, dividends, capital gains, royalties and rental income.

ADDENDUM: SECURE ACT 2.0

Congress passed the Secure Act 2.0 the last week of December, 2022. While most of the provisions do not impact 2022 tax returns, we have listed several provisions below which should be considered for future tax planning.

Provisions affecting retirees or those approaching retirement

- Effective for 2023, the age for required minimum distributions (RMDs) has been increased to 73. The RMD age remains at 72 for those born prior to 1/1/51. An additional increase to age 75 will take effect in 2033 for those born after 1/1/60.
- A 2020 provision which allowed an optional three-year deferral of income recognition from retirement distributions of up to $100,000 for those in Federal disaster areas has been reinstated and the cap has been reduced to $22,000 for all disasters after 1/26/21. This applies to anyone residing within a declared Federal disaster area for the year of the withdrawal. For example, most Florida residents qualify for 2022 as a result of Hurricanes Ian and Nicole.
- Starting in 2025, taxpayers age 60-63 who are still working can make additional catch-up contributions to workplace retirement plans (including 401(k)s) of up to $10,000, in addition to the normal limits and catch-up amounts.
- Currently, taxpayers 70½ and older can make Qualified Charitable Distributions (QCDs) up to $100,000 directly from their IRAs to qualified charities. Effective tax year 2023 and beyond, up to $50,000 of QCDs be made to Charitable Remainder Trusts or Gift Annuities as well as qualified charities.

Provisions affecting all others

- Starting in 2023, employer contributions to retirement accounts, including 401(k), 403(b), 457(b), SIMPLE IRA and SEPs, can optionally be made to a Roth IRA account. These amounts would be included as earned income by the taxpayer but would then remain in the tax advantaged Roth IRA account. SIMPLE IRAs also are now allowed a Roth option for employee deferrals.
- Starting in 2024, any “catch-up” contributions to 401(k), 403(b),457 (b) and SIMPLE IRA retirement accounts by taxpayers over age 50 with wages from the same employer of more than $145,000 in the previous year must be made to Roth accounts.
- Starting in 2024, Section 529 Education Savings Accounts maintained for more than 15 years can be rolled over to a Roth IRA for the beneficiary. The annual amount that can be rolled over is capped at the annual Roth contribution limit and is subject to a lifetime limit of $35,000. There is no income limitation on this rollover provision.