Tax Newsletter

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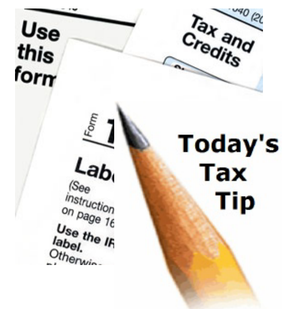

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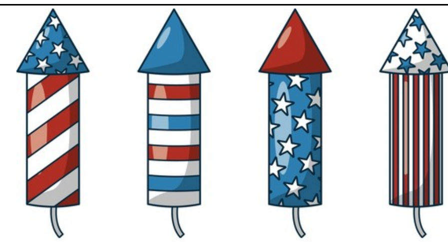

Upcoming dates:

July 4 – *Independence Day*

Don't forget to like and follow us on Facebook!

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In this month's newsletter, you can read about how your bank accounts can work together as a team to provide the security and value that you're looking for. You can also read about tax surprises to be on the lookout for and how your business mileage deduction just became more valuable. Please feel free to forward the information to someone who may be interested in a topic and call with any questions you may have.

Layering Your Bank Accounts

Time for the classic banking approach to make a comeback?

For years, savings and checking accounts provided very little interest income. In our current inflationary times, however, interest rates are on the rise. What is also on the rise is the comeback of traditional banking products. Here is a review of how your bank accounts traditionally work together as a team to provide you the best security and value for your money and their primary purposes:

Checking account: 30 days of funds

- **Primary Purpose:** Checking accounts enable financial transactions. Make sure to store enough money here to pay for your immediate expenses. With checking accounts, you're allowed numerous withdrawals and unlimited deposits. The trade-off for having an account where cash is available at a moment's notice is usually a much lower interest rate.

Basic savings account: 2 to 6 months of funds

- **Primary Purpose:** To store your money in a secure location so that you can use it to pay periodic expenses that are expected over the next 2 to 6 months. This is also where many people store their emergency fund. While these accounts typically pay only a modest amount of interest, their safety and reliability make savings accounts a great choice for stashing cash that you want to be available sometime within the next 12 months. This is often also your overdraft buffer in case your checking account gets overdrawn.

Higher-interest bank accounts: Lots of choices

- **Primary Purpose:** There are several types of bank accounts for storing your money beyond what you need for short-term expenses. High-yield savings accounts, money market accounts, and certificates of deposit all provide at least 10x the interest return, as compared to a regular savings account. But in return for a higher interest rate, there are rules that govern how long you need to leave your money untouched in these accounts.

When you're trying to decide where to keep your money, there are also tax ramifications to consider. Keep this in mind as you review how your bank accounts work together as a team.

Watch for These Tax Surprises

Our tax code contains plenty of opportunities to cut your taxes. There are also plenty of places in the tax code that could create a surprising tax bill. Here are some of the more common traps:

- **Home office tax surprise.** If you deduct home office expenses on your tax return, you could end up with a tax bill when you sell your home in the future. When you sell a home you've been living in for at least 2 of the past 5 years, you may qualify to exclude from your taxable income up to $250,000 of profit from the sale of your home (if you're single) or $500,000 (if you're married). But if you have a home office, you may be required to pay taxes on a proportionate share of the gain. Also, if you claim depreciation on the business use of your home, this could add even more to your tax surprise. This added tax hit surprises many unwary users of home offices.

- **Kids getting older tax surprise.** Your children can lead to an additional tax deduction, if they meet certain qualifications. But as they get older, many child-related deductions fall off and create an unexpected tax bill. As an example, one of the largest tax deductions that your children can provide you is via the child tax credit. If they are under age 17 on December 31st and meet several other qualifications, you could get up to $2,000 for that child on the following year's tax return. But you'll lose this deduction the year they that turn 17. If their 17th birthday occurs in 2022, you can't claim them for the child tax credit when you file your 2022 tax return in 2023, resulting in $2,000 more in taxes you'll need to pay.

- **Planning next year's tax obligation tax surprise.** It's always smart to start your tax planning for next year by looking at your prior year's tax return. You should then take into consideration any changes that have occurred in the current year. Solely relying on last year's tax return to plan next year's tax obligation could lead to a tax surprise.

Please call to schedule a tax planning session so that you can be prepared to navigate around any potential tax surprises that you may encounter on your 2022 tax return.

Your Business Mileage Deduction Just Became More Valuable

Your business mileage tax deduction just became more valuable for the rest of 2022 after a recent announcement by the IRS. Starting July 1st, the IRS's business mileage rate is increasing by 4 cents, to 62.5 cents per mile, while the medical and moving mileage is also increasing by 4 cents, to 22 cents per mile. The previous mileage rates will still apply through June 30th.

Here are some tips to make the most of your business's vehicle expense deduction:

- **Don't slack on recordkeeping.** You won't be able to take advantage of the increased mileage rates without proper documentation. The IRS mandates that you track your vehicle expenses as they happen. You're not allowed to wait until right before filing your tax return to compile all the necessary information that is needed to claim a vehicle deduction. Whether it's a physical notebook or a mobile phone app, pick a method to track your mileage and actual expenses that's most convenient for you.

- **Keep track of both mileage and actual expenses.** The IRS generally lets you use one of two different methods to track vehicle expenses – the standard mileage rate method or the actual expense method. But even if you use the standard mileage method, you can still deduct other expenses like parking and toll fees. So, make sure to keep good records.

- **Don't forget about depreciation!** Depreciation can significantly increase your deduction if you use the actual expense method. For heavy SUVs, trucks, and vans with a manufacturer's gross vehicle weight rating above 6,000 pounds, 100% bonus depreciation is available through the end of the 2022 tax year if the vehicle is used more than 50% for business purposes. Regular depreciation is available for vehicles under 6,000 pounds, with annual limits applied.

The IRS Announces Tax Scams

Compiled annually, the IRS lists a variety of common scams that taxpayers can encounter. This year's list includes the following categories:

- **Pandemic-related scams.** Criminals are still using the COVID-19 pandemic to steal people's money and identity with phishing emails, social media posts, phone calls, and text messages. All these efforts can lead to sensitive personal information being stolen, and scammers using this to try filing fraudulent tax returns. Some of the scams that people should continue to be on the lookout for include Economic Impact Payment and tax refund scams, unemployment fraud leading to inaccurate taxpayer 1099-Gs, fake employment offers on social media, and fake charities that steal taxpayers' money.

- **Offer-in-compromise mills.** Offer-in-compromise mills make outlandish claims about how they can settle a person's tax debt for pennies on the dollar. Often, the reality is that taxpayers are required to pay a large fee up front to get the same deal they could have gotten on their own by working directly with the IRS. These services tend to be more visible right after the filing season ends while taxpayers are trying to pay their recent bill.

- **Suspicious communication.** Every form of suspicious communication is designed to trick, surprise, or scare someone into responding before thinking. Criminals use a variety of communications to lure potential victims. The IRS warns taxpayers to be on the lookout for suspicious activity across four common forms of communication: email, social media, telephone, and text messages. Victims are tricked into providing sensitive personal financial information, money, or other information. This information can be used to file false tax returns and tap into financial accounts, among other schemes.

- **Spear phishing attacks.** Criminals try to steal client data and tax preparers' identities to file fraudulent tax returns for refunds. Spear phishing can be tailored to attack any type of business or organization, so everyone needs to be skeptical of emails that are requesting financial or personal information.

What you can do

If you discover that you're a victim of identity theft, consider taking the following action:

- **Notify creditors and banks.** Most credit card companies offer protections to cardholders that are affected by identity theft. Generally, you can avoid liability for unauthorized charges exceeding $50. But, if your ATM or debit card is stolen, report the theft immediately to avoid dire consequences.

- **Place a fraud alert on your credit report.** To avoid long-lasting impact, contact any one of the three major credit reporting agencies (Equifax, Experian, or TransUnion) to request a fraud alert. This covers all three of your credit files.

- **Report the theft to the Federal Trade Commission (FTC).** Visit identitytheft.gov or call 877-438-4338. The FTC will provide a recovery plan and will offer updates if you set up an account on the website.

- **Please call if you suspect any tax-related identity theft.** If any of the previously mentioned signs of tax-related identity theft have happened to you, please call to schedule an appointment to discuss the next steps.

Understanding Tax Credits Versus Deductions

Tax credits are some of the most valuable tools around to help cut your tax bill. But, figuring out how to use these credits on your tax return can get complicated very quickly. Here's what you need to know.

Understanding the difference

To help illustrate the difference between a credit and a deduction, here is an example of a single taxpayer making $50,000 in 2022:

- **Tax Deduction Example:** John Smith earns $50,000 and owes $5,000 in taxes. If you add a $1,000 tax deduction, he'll decrease his $50,000 income to $49,000, and owe about $4,800 in taxes.

  Result: *A $1,000 tax deduction decreases John's tax bill by $200, from $5,000 to $4,800.*

- **Tax Credit Example:** Now let's assume John Smith has a $1,000 tax credit versus a deduction. Mr. Smith's tax bill decreases from $5,000 to $4,000, while his $50,000 income stays the same.

  Result: *A $1,000 tax credit decreases your tax bill from $5,000 to $4,000.*

Too good to be true?

Credits are generally worth much more than deductions. However, there are several hurdles that you have to clear before being able to take advantage of a credit. To illustrate, consider the popular child tax credit.

Hurdle #1: Meet basic qualifications

You can claim a $2,000 tax credit for each qualifying child that you have on your 2022 tax return. The good news is that the IRS's definition of a qualifying child is fairly broad, but there are enough nuances to the definition that Hurdle #1 could get complicated.

Hurdle #2: Meet income qualifications

If you make too much money, you can't claim the credit. If you're single, head of household, or married filing separately, the child tax credit completely goes away if you exceed $240,000 of taxable income. If you're married filing jointly, the credit disappears above $440,000 of income.

Hurdle #3: Meet income tax qualifications

To claim the entire $2,000 child tax credit, you must owe at least $2,000 of income tax. For example, if you owe $3,000 in taxes and have one child that qualifies for the credit, you can claim the entire $2,000 credit. But, if you only owe $1,000 in taxes, the maximum amount of the child tax credit you could claim is $1,400.

Take the tax credit...but get help!

The bottom line is that tax credits are usually more valuable than tax deductions. But tax credits also come with lots of rules that can be confusing. Please call to schedule a tax planning session to make sure you make the most of the available tax credits for your situation.

As always, should you have any questions or concerns regarding your tax situation please feel free to call.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us at 304-233-5030.