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THE STRAUSS REPORT

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TAX SEASON IS UPON US- READY OR NOT…..

Given the turmoil from COVID, the IRS and IL is still dealing with a backlog of paper returns from 2021, replies to notices as well as processing amended returns – and also creating new forms and instructions for the two new tax laws passed in 2022 (which could change and shake up our taxes and tax planning), it feels unreal tax season is once again upon us. The good news is the IRS received $80 Billion from the new Inflation Reduction Act to modernize technology that is decades out of date, improve the customer service experience for both taxpayers and tax professionals and increase compliance with the continually changing and overly complex law laws. (Yesterday was the very first day I was able to get through to on my Practitioner Priority Line without redialing for hours and being on hold, only to be cut off!) The official starting date for this year was January 23rd and the final date of the filing season is April 18th - but most of us do not get our final investment reports until mid-February or even March.

In this issue of **The Strauss Report,** we will review both the new changes for 2022 returns and things that are gone for 2022. We will also discuss some important changes for the year ahead which are from the Secure 2.0 Act, which was signed at the very end (December 29) of 2022. And we will give you the "heads up" about the old and hopefully new IRS and IL given the appropriation of $80 Billion dollars to bring the IRS into the modern age. And finally, we will review yet again important things to watch out for, including medical expenses, qualified charitable contributions and sales of your principal residence or other properties (which seem to be a lot more common now).

SO WHAT IS NEW FOR 2022 TAX RETURNS?

- **Required Minimum Distributions are back again**. If you were over 70 ½ on 12/31/2019 you must continue to take out as before - but under the expanded IRS withdrawal tables with a longer life expectancy. If you were 72 in 2022 you should have taken your RMD during this tax year. However, if you turn 72 in 2023, you can now wait another year – or until you hit 73 to begin taking your required withdrawals. (And while not new, since the stock market was sort of a mess in 2022, our year end values are down, creating less and often much less required minimum distributions for 2023)
- **In addition,** the penalty (which was never really enforced) for not taking your RMD – mostly because you just forgot!) has been reduced from 50% of the amount required to be withdrawn currently to 25% and to 10% if corrected within two years.
- **Not new - but so important is the provision called QCD (** Qualifying Charitable Contributions). These are contributions made to a charity directly from your IRA trustee or administrator. These contributions can be subtracted from your gross IRA withdrawal when we prepare your taxes, thus saving tax money and reducing your Adjusted Gross Income for medical expenses and possibly taxable Social Security computations as well as future Medicare costs. We create a list of these when we prepare your taxes, so we need proof of each QCD donation.
- **Finally, inherited IRAs operate under different rules than your own required distribution**. If you are a spouse and inherit an IRA, you can continue to withdraw as you would your own, a little each year under the IRS life expectancy tables. If you are a non-spouse, you must withdraw the entire amount within ten years - the account must be at -0- at that time. At the present time, you can still wait to withdraw until near or at the end of the ten-year period, but there are proposed regulations to require yearly withdrawals before that time. As of now, these are just proposed, but not finalized.

- **Energy Credits got a huge boost for 2002 and beyond!** Prior to 2022, the credit was only for the taxpayer's principal residence and was subject to a small ($500 lifetime limit). The Inflation Reduction Act of 2022 renamed the credit to Energy Efficient Home Improvement Credit and extended the credit to include property place in service before January 1, 2033. The lifetime limit also no longer applies. Instead the annual limit is $1,200, with specific limitations on the amount that can be claimed for windows, doors, heat pumps. water heaters, air conditioners and furnaces, so long as they meet the EnergyStar requirements. And, best of all, the credit has been expanded to homes located is the US, so long as the taxpayer uses that property as a residence. In other words you can now claim this credit on a second home.

AND YES - THERE ARE A LOT OF THINGS GONE FOR 2022...AS WELL

- **While many of us got stimulus payments in 2020 and 2021 and they were not taxable, there are NONE for 2022.** Most of our clients did bring us proof of the payments that were received so we could reconcile them on your 2021 tax return, and we did not hear of any errors from this reconciliation on your 1040!

- Also for 2021, there were expanded child credit rules: taxpayers with children ages 6-17 were eligible for a credit of up to $3000; for children under 6, the amount jumped to $3,600. **For 2022, that amount reverts to $2000 per child dependent age 16 and younger and phases out by $50 for every $1000 if your income is over $400,000. Also, there will no longer be advance payments of the child credit as there were in 2021. Parents will receive the credit as usual when they file their tax returns for the 2022 tax year.**

- **Child and Dependent Care benefits also returned to its previous requirements: a limit of $3000 for one qualifying child or $6000 for two more qualifying persons.** For 2021 this was $4000 for one child and $8000 for two or more. Pretax Dependent Care Benefits also returned to a maximum of $5000 from the 2021 expanded $10,000 amount.

- **Unemployment Benefits are fully taxable for 2022** - there is NO exclusion for part of your benefit as there was in 2020.

- **The State and Local Tax Limitation (SALT) from the Tax Cuts and Jobs Act of 2017 to a maximum of $10,000 was extended now through 2026.** This means that many of us are still not able to itemize our deductions due to the enhanced standard deduction.

- **And finally, while many of us took advantage of the small deduction on our 1040 for $300/$600 of charitable contributions even if we did not itemize, this is also gone for 2022.**

OMG: What else should I/we Remember?

- **The lower rates** from the 2018 Tax Act for ordinary income and investment income are permanent for most of us. This includes the 0% rate on investment income for taxpayers with taxable income below $41,775 - Single and $89,075 - Married Joint and the 15% rate for those with taxable income below $445,850 Single and $517,200 Married Joint.
- **The Standard deduction in the new law** is nearly double to $25,900 for couples, $12,950 for Singles and an extra $1400 each if over 65.
- There are no exemptions.
- The popular deduction for state and local taxes and real estate taxes is limited to $10,000.
- **Home mortgage** interest can only be deducted on up to $750,000 on a primary or second residence for mortgages begun after December 14, 2017. **NO** write off is allowed for interest on existing or new home equity loans from which the proceeds are used to buy a car, pay off credit card debt and the like.
- **Charitable Contributions are still deductible if you itemize.** Tax-free distributions from IRAs donated to charities are now permanent. Please remember to bring your list of these qualified charitable contributions (with backup)!

- The **Child credit** for dependents under the age of 17 is now refundable - it is up to $2000/child and many more taxpayers will get it since the phase out is up to $400,000. Many of our clients with children get a big break – until their kids hit 17! There is also a $500 credit for each dependent who is not a qualifying child, i.e. an elderly parent or a disabled adult child.
- **Identity Protection PINs** are offered (or required) by the IRS to protect against identity theft. If you got one in 2022, you must get a new one for 2023 to include on your 2022 1040. If you had Identity theft in 2022 or before, you must also get a new IPIN. It is a good idea but can be not so easy to do online or on the phone. Call us if you need assistance or have questions.
- **The exclusion of tax on the profit from the sale of a principal residence is big-** $250,000 for Singles and $500,000 for Married and can include a stepped us basis of one half- if you owned it jointly with a spouse that died. Call us for our house sale worksheets. Other residences or land do not qualify, and tax may have to be paid both to the IRS and another state if required.
- **The Estate (or death) tax** will hit almost no one since the lifetime exemption is doubled to over $12.06 million. However, the IL exclusion is still $4 million (for now) so we may have to file the Federal to file the IL 700 and pay estate tax to our state. The annual gift tax exclusion for 2022 was $16,000; for 2023 it is $17,000. If you give more, we need to complete a Form 709, but NO tax is due.
- **It is taking a LOT longer (6-9 months or more**) to get answers to IRS and IL notices. Their backlog of paper returns from 2021 is now down to 400,000 from 4.7 million at the end of 2021. Amended returns are "down" from 2.4 million to 600,000 and anything in paper like replies to notices on paper are only down from 6.3 to 5.1 million. They have hired and trained about 10,000 new Customer Service specialists for you and for me too, but their computer and software systems are old, and they are still using Windows 2000, which means even if we get through, their systems often are down. We keep lists of clients with issues and follow up for you with the IRS and IL- often with a Power of Attorney.

Paying Online is the New Normal....

Most of us have been having our refunds direct deposited and any monies owed to the IRS and IL debited from our bank accounts. You have, however, been paying Estimated taxes and other tax bills with the ES coupons we give you at tax time. Given the issues both the IRS and IL have been experiencing with checks - from losing them or sometimes crediting them incorrectly in this crazy and difficult year, we have been recommending paying your ES online as well. You can do it directly through the IRS and IL websites without setting up an account- we will be giving you instructions on exactly how to do this when we prepare your 2022 taxes and compute your 2023 ES. You do not have to do this, but you get an email confirmation to print, and you can select the exact date you want the payment withdrawn – and then you can check your bank account as well.

Finally: Do not assume you will not itemize. This is your opportunity to review your income, budget, and spending for the past year and preparing toward the next. Many of us paid or prepaid medical bills (or have large medical expenses due to nursing home or COBRA costs) and made contributions at the end of the year. Churches are "getting used to" this new income flow - with less every week donations and more IRA contributions and doubling up at year end, i.e. prepaying for the year ahead. We recommend you continue to collect all the same tax records as you have done in the past, so you/we look at what you are spending and make suggestions towards both tax planning and tax savings.

JUDI STRAUSS in Print, on Media

We are now in our main office in Chicago full time Chicago and our temporary an office in Downers Grove from last tax season is closed. We have arranged for you to have your tax information " picked up" thanks to Beth's husband and then delivered. Or you can either drop it off/pick up at her home in Woodridge or FEDEX it to us in Chicago. We will complete your return either with you on Zoom or review it with you after completion via phone or Zoom. We do have free parking for you in Chicago if you want to see us (and us you too!). In addition, we have moved our DG phone number to a cell phone so you will not have to learn a new number – (630) 964-4018 it is!! In Chicago, we are doing both in person and zoom/phone consultations.

Beth Austin, our Office Manager, will be scheduling your appointment and possible Zoom or phone follow up, calling with a reminder, sending out a map if needed, letting you know we received your FEDEX package, doing pick-ups and drop offs and answering your calls. Please make sure you tell her if you have anything new this year and listen as she reminds you what to bring (including pay stubs). While this will be challenging for all of us, both Beth and I will work with you to get all the work done.

Finally, please note that we are now getting so many more emails and calls and documents, including 1099s from brokers, trust documents and IRS notices as well as calls/emails from attorneys, adult children of clients (important as we work to avoid missing any tax documents and important deductions). While you may not see this work, just making sure we have everything, we file it in your tax information working folder and follow-up with you before we efile, this takes both additional time and thorough attention to detail. If there is additional work in preparing your taxes, this work will be itemized on your bill as other work. Yes, somehow it does take longer - for you and for us but it is so important to "get it done correctly" and avoid issues later....

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<u>DON'T FORGET TO BRING – FOR YOUR APPOINTMENT</u>:

- All original documents
- Histories of stock/mutual fund sales
- Medical expenses and Charitable contributions - to check itemized and for QCDs.
- Closing Statements on old and new houses
- Parcel number - principal residence (and county too!)
- 1098T (tuition) forms with backup payments
- Year – end IRA statements – and previous 8606 forms if filed
- ES payments and cancelled checks- or proof of payment
- Bank information (routing number/ account number) for refund or withdrawal
- Any new information for 2023 withholding or Estimated Taxes - including paystubs for wages, pensions, and other retirement income.

Judy Strauss