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THE STRAUSS REPORT

Fall 2022

OMG: Is it really October - in this so long year of 2022?

This tax season and this year of 2022 have been filled with more tax issues, tax changes and tax problems than almost any year since I have been working with most of you. From the IRS difficulties in processing returns, cashing checks and responding to phone calls on my Practitioner Priority Line or paper replies to notices. In addition, we still have so many changes in our own lives - from losing or changing jobs, to sales of houses to so many medical issues (and our working with the adult children of our clients). We have spent time working to make sure your questions are answered and that we follow up on each call or email. As you will read below, it is our hope that with the new IRS funding - that the difficulties of this year can be corrected.

In this issue of **The Strauss Report**, we will work to help you understand the tax changes from the Inflation Reduction Act of 2022 impacting this year's taxes and suggest some end of year tax strategies to consider. We will also work to answer questions on the implications of collecting unemployment, required minimum distributions from IRAs and inherited IRAs for 2022, charitable contributions (QCDs) and how both paying and responding to IRS and IL notices has changed. We will also review the fall medical insurance season ahead, including increases in Social Security for 2023 (and a decrease in Medicare premiums as well!). And finally, we will address the issues many of you (and us) are having with both the IRS and IL - from non-cashing of checks, to notices and limited/ or no responses as we/they continue to work from home.

YES - THERE ARE A LOT OF THINGS THAT ARE GONE IN 2022...

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.

PROVISIONS OF THE ALL NEW - INFLATION REDUCTION ACT OF 2022...

On August 16, 2022, President Biden signed into law H.R. 5376. In general this legislation:

- **Continues the Affordable Care Act premium subsidies** that lower the cost of health insurance for lower income individuals and families from now until 2025 (they were due to expire at the end of 2022)
- **Creates expanded Energy Credits** (now called the Energy Efficient Home Improvement Credit) and extended the credit to include property placed in service before January 1, 2033. For 2022, the prior credits have been revived as they were - with a lifetime credit limitation of \$500. For 2023-2032 the credit amount to 30% (previously 10%) of the amount paid for qualified energy improvements, with an annual limit of \$1200 - and NO lifetime limits. For windows, skylights \$600 annual total credit. For doors the credit is \$250 for one, \$500 for more than one and \$2000 (for installations after December 31, 2022) for heat pumps, water heaters and biomass stoves and boilers. This bill also expanded the credit to homes other than a principal residence - that means a second home will qualify!!
- **There is a new Clean Vehicle Credit** beginning after December 31, 2022, which eliminates the phase out of the credit based on number of vehicles sold. The Credit for each new plug drive motor vehicle can be as high as \$7500. The vehicle must have final assembly in North America and the MSRP cannot exceed \$55,000 for sedans and \$80,000 for vans and SUVs. It is limited, however, by the taxpayers Adjusted Gross Income (\$300,000 for Married Joint and \$150,000 for all others).
- **There is also a new credit for previously owned vehicles** beginning in 2023. The credit is the lesser of \$4,000 or 30% of the sales price - limited to \$25,000. The transaction must be made through a dealer and has an income phase out.
- **Increases the IRS budget by roughly \$80 Billion over ten years.** The money is broken into four main categories – enforcement (\$45.6 billion), operations support (\$25.3Billion), business system modernization (\$4.8 Billion) and taxpayer services (\$3.2 Billion). Enforcement includes auditing of high-income taxpayers (over \$400,000), conducting criminal investigations and to enforce criminal statutes related to violations of IRS laws and other financial crimes. Operations support includes information technology and upgrading of their hardware and software much of which is pre-2000. The increased funding will also be used to:
 - Fully staff every IRS Assistance Center to serve taxpayers in person
 - Hire additional phone representatives to reduce taxpayer wait time
 - Improve IRS slow turnaround for paper returns and to automate scanning and creating digital copies.
- **And finally, one of the most significant provisions will allow Medicare to negotiate the price of certain prescription drugs, bringing down the price beneficiaries will pay for their medications. Medicare will have a \$2,000 cap on annual out-of-pocket prescription drug costs, starting in 2025.**

REQUIRED MINIMUM DISTRIBUTIONS ARE BACK

The temporary Waiver of Required Minimum Distributions was for 2020 only. You must take this year's distribution based on the 12/31/2021 value of ALL your retirement accounts, (except for ROTH IRAs), divided by your life expectancy on the IRS withdrawal table. If you were under age 72 on 12/31/2019, you can now wait until you reach that age; all others must withdraw this year. For non - spouse inherited IRAs, they must be totally withdrawn by the end of the 10th year – as of now, you can wait to withdraw until then, but there are proposed regulations to change that. For many of us, the RMD amount is a lot more than in prior years – we are older, and the stock market did quite well during 2021 too. **Even though the stock market is way down in 2022, you must take out your RMD based on the value as of 12/31/2021!!**

Perhaps you need this withdrawal for your living and/or medical expenses. Perhaps you want to take part of it out and donate it to charity (and many of our clients are doing this!), or perhaps you want to gift it to a child or grandchild - please do so! As most of us know by now, if you donate directly to charity from your IRA, it is subtracted from your taxable income. This could reduce your taxable Social Security; the Adjusted Gross income used for the medical deduction floor and save you taxes as well. We have been working with clients to properly complete the QCD (Qualified Charitable Contribution) forms with their investment advisors - call us if you want our assistance.

Social Security, Medicare, and you

- **Social Security recipients should see a 8.7-8.8% rise** in their benefits for 2023 because of the spike in inflation, the largest increase in 41 years. At least for this year ahead, it will not be taken away by the increase in Medicare premiums which are scheduled to drop to \$164.90, saving Medicare enrollees about \$62/year. Medicare prescriptions drug coverage is also expected to decline for 2023.
- **Upper income seniors also pay more for Medicare Part B and Part D coverage in 2023**, depending on adjusted gross income - over \$170,000 for joint filers or \$85,000 for Singles. You get a **letter in November of each year** when the IRS and SSA share tax information if your premiums are going up- and they are deducted from your Social Security deposited in your bank account. This is a year-by-year computation - so if your income increased for just one year, your premiums should go back down the next.

HOUSE SALES, LAND SALES - AND RENTAL SALES TOO

Many taxpayers are selling their principal residences, land held for investment, rental properties and even farms. These may be in IL or in another state. You/we do have to report these sales and pay tax on the gain (except for main homes which have an exclusion of \$500,000 if married and \$250,000 if Single) and to IL or the other state where the property was located. Please call or email us if you have sold so we can send you what information we will need to compute your "profit" now and not wait until tax time

WHAT IS GOING ON WITH THE IRS AND IL?

1. The IRS is making progress on its backlog of unprocessed tax returns. They reported that it has reduced the unprocessed individual returns received this year to 8.7 million as of August 17.
2. In August, the IRS also approved penalty relief if you filed your 2019 or 2020 taxes late. More than a 1.6 million Americans will get a rebate from the IRS or have their late fine cancelled – the average refund will be about \$750.00
3. The IRS sends out lots of error and collection notices (often automated) - and you freak out and call/email us! It is a problem- just last year over 90,000 premature notices and demands for overdue/incorrect taxes were sent by mistake. Usually we calm you down, review the notice and see if there really a problem, get a Power of Attorney form signed by you so we can talk to the IRS (when we get through!) and reply in writing. It takes anywhere from 4-6 months to clear up most issues and we track them for and with you - and appreciate your letting us know when you get a check!
4. You can also pay your Estimated taxes online both for the IRS and IL- and we have been suggesting this. We have sent instructions to clients and walked them through the process the first time- and it works! Just like if you owe at tax time to put in the bank information and the withdrawal date- each time you want to make a payment. The IRS and IL do not "save" your banking information.
5. With Identity Theft on the rise, many clients have been getting IP PINS. You must get a new one each year- which has been a problem for several clients. The good news is that the IRS announced this week that it will suspend its use of the controversial of facial recognition ID.me verification service.
6. Many of us got (will get) a **onetime property tax/income rebate** from the State of IL (usually about \$400) which may either show up as a direct deposit or as a check. To check on the status of your rebate, visit tax.illinois.gov/rebates/

Finally: Do not assume you will not itemize in 2023. Both NOW and at Tax time is the opportunity to review your income, budget, and spending for the past year and toward the next. Many of us can pay or prepay medical bills (or have large medical expenses due to COBRA costs) and make 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.

This Fall we are doing a 2022 ZOOM TAX update workshop at the Downers Grove Library: Thursday, November 3 at 6:30PM. Please register with them online or at the library. When we finalize January 2023 plans, we will let you know and post on our website. In the interim I have been meeting clients in the suburbs as needed or Beth picks up and delivers and we have telephone or Zoom consults.

Beth and I regularly check the phone- (the (630) 964-4018 number) and my email (judi@strausstax.com). Make sure you put our contact information in your cell phone. In addition, make sure your family knows who we are in case they need to talk with us or us to them.

Both our website (www.strausstax.com) and our Facebook page have up to date tax information and workshop flyers, and you can follow us on Facebook as Strauss Tax Service without being my personal friend!

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Things to Call us About this Fall:

1. Estimates for the 4th Quarter after long term capital gains (or maybe not this year!) in our mutual funds show up in December.
2. I/we sold a stock. How do I compute the Basis?
3. Home Sales - your principal residence and other homes too.
4. Am I ready for retirement?
5. What do I need to do when someone passes on?



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