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THE STRAUSS REPORT

Summer 2022

Was this the Worst Tax Filing Season ever? Maybe so....

The 2022 tax season started sort of on time but there was no extended due date as in 2020 and 2021 due to COVID. The IRS was not ready, so we got software updates through the end of March. The tax forms were not ready so many of us got late 1099s and corrected 1099s through March and often even after-tax season for 2021 and prior years. The IRS began with truly obsolete software (they are still using Windows 2000!), 20% less employees, a budget less than 2010, (a 19% increased workload due to the tax law changes and stimulus/child credit payments). As of April 29, there were 9.6 million unprocessed individual tax returns, from both 2020 and 2021. The agency says it is taking more than 20 weeks to handle amended returns and hopes to catch up on all its processing backlogs by the end of 2022. Waits on hold for us average over an hour (if we can get through at all) and often their computer systems are down when we get through. A small bit of good news though: you will earn 4% interest now and 5% after 1 July on late refunds or those from amended returns since they are required to process a tax return within 45 days or pay interest tied to the now higher short term interest rates. IRS interest is taxable but comes with a cost for all of us - the agency paid over \$3.3 Billion in interest in 2021, a 33% jump from 2020!

SO WHAT HAPPENED – during this filing season?

1. **Many of us had more income in 2021 than in 2020 and we also owed taxes. Why?**
 - **First**, Required Minimum Distributions were/are back. For 2020 and COVID, we did not have to withdraw from our IRA and 401K accounts. In 2021, we did. Many of us contributed to charity from our IRA withdrawals (QCD or Qualified Charitable Distributions) but our income was still much higher than last year.
 - **Second**, many of us have our investments in mutual funds with stocks - and the fund managers decided to sell at the end of 2021. This was a good investment strategy (to capture the gains) but created huge, short term and long-term capital gains on your 1099 - which was a big surprise at tax time. These gains if long term were taxed at a lower tax rate (usually 15%) for the IRS but were also taxed at 4.95% for IL. This was also true with managed investment accounts; we saw stock sales of long time appreciated individual stocks with big capital gains.
 - **Often**, this increased income made the full 85% of your Social Security taxable – as opposed to none or less in 2020. This 85% SSA begins at \$34,000 for Single and \$44,000 for Married/Joint and has never been adjusted for inflation since 1992.
 - **Unemployment compensation** was fully taxable in 2021 for both the IRS and IL- there was no exclusion of the first \$10,200 if your AGI was under \$150,000 as in 2020.
2. **There was a third stimulus payment for you and your dependents if your Adjusted Gross Income was under \$150,000 to reconcile** on your 1040 (with an IRS letter 6475 sent in January 2022).
3. **There were BIG Child credits** - more for children under age 6 and others for 6-18 (some of which came from July 2021-December 2021 as advance credits. These needed to be reconciled on Form 8812 (with an IRS letter 6419 also sent in January.)
4. We are estimating at least 50% of our clients paid more in taxes - and owed taxes for the 2021 tax year. Adjusted for inflation, filers paid more than \$500 Billion in April 2022, compared to about \$300 billion before the pandemic. Federal and IL tax revenue has risen dramatically in 2021-22 despite COVID impacting the economy - \$1.8 Billion more from personal income taxes in IL and a record

April 2022 IRS receipts of \$864 billion, more than double the prior year's amount.

Your higher total income (including Social Security and Municipal Bond Interest) can also impact the amount you will pay for Medicare and your Medicare Drug Plan in 2023. The IRS and Medicare/Social Security exchange income information and letters informing you about higher costs (which get subtracted from your SSA benefits deposited into your bank account) are mailed in the Fall. The increases start at a total income of \$91,000 for Singles and \$182,000 for Married/Joint. We have the chart for 2022; if you would like a copy, call, or email us so you might not be surprised later this year.

The IRS is both requiring Identity Protection Pins for taxpayers whose identity has been compromised and giving them to taxpayers who want to protect themselves. They must be included on the tax return we efile – and must be renewed /changed each year. Several clients did not realize they needed a new one in 2022 and we had to help them on the IRS website: www.irs.gov. We cannot say whether it is a good idea for you and/or your spouse. It does offer protection but adds yet another layer of complexity to the tax filing process each year.

In addition, we have substantially more extensions than in prior years. Some of us are older and did not “find” all the tax documents needed; others did not want to look at taxes this year and got information to us late so there were just not enough hours to do all the work before April 15. Others usually get extensions – which are until October 15th. The issue is that the extensions which we filed are NOT an extension to pay so there could be small penalties and interest if you owe tax money. We can include possible penalties in what you owe but you may still get a notice from either the IRS or IL – or both. Call us or scan your notice to us and we will review it and see what we can do for you. If it is small, it is probably easier to just pay it.

We are also tracking refunds for clients - for current year tax returns, for amended returns from 2020 and other years. We get Form 2848 (Power of Attorney) and follow up with the IRS – and cheer with you when you get your refund, when we get penalties reduced and/or problems solved.

AND WHAT IS AHEAD FOR 2022 – a lot!!

1. We have computed required minimum distributions for most clients. Please remember they must be taken out before December 31, 2022. The RMD can come out of each IRA or only one IRA. It does not matter so long as the total required amount is withdrawn. The IRS has a law on the books of a 50% tax penalty for “forgotten” withdrawals, but it has not been enforced. If you forget, we have you withdraw the forgotten back IRA and the new IRA in the same year so it can work- it just increases your taxes. You can also make charitable contributions (QCD) directly from your IRA to the charity- this saves tax money since most of us are not itemizing now. In addition, the small deduction for contributions without itemizing is now gone.
2. For 2022 the child credit amounts have returned to the former levels.
 - parents can receive up to \$2000 for each child under 16
 - Only \$1500 of the credit is fully refundable
 - The income phase outs stay the same - \$400,000 for Married Joint and \$200,000 for Single
 - There is NO advance payment option. Taxpayers will get the child credit when they file their 2022 taxes.
3. **The Child and Dependent Care credit has also returned to the prior levels.**
 - Pretax DCB is \$5000
 - The Child and Dependent Care Benefit is maxed out at \$3000/child or \$6000 for two or more children.
4. **The Residential Energy Credit** has not been extended for 2022 as of this writing.
5. **The floor for medical expenses is still 7.5%. Most people do not itemize unless they have substantial**

medical or charitable deductions or a very large mortgage,

6. **Estimated Taxes** are usually relatively easy to figure but not this year. Since there were huge capital gains in 2021 and the stock market so far does not seem to be doing so well, our computations are best on our “best estimate.” What this means is that you should review your monthly or quarterly investment reports. We can always increase or probably decrease your ES payments each quarter when we send you your hot pink ES reminder postcards. We have also been suggesting that you pay your IRS and IL Estimated taxes online and we have a detailed instruction sheet for you. You do not have to set up an account to pay and they do not keep your banking information. Since there have been issues with uncashed or misplaced checks, this could be an easier and safer way to pay now.

WHEW! IS THERE MORE? OF COURSE!!

- The Setting Every Community Up for Retirement Enhancement (SECURE) Act was signed on December 20, 2019. **A major part of this legislation increased the age required for minimum distributions from 70 ½ to 72. This is only for individuals who became 70 ½ after 12/31/2019.**
- **Beneficiaries of inherited IRAs (except the spouse) cannot “stretch” the IRA withdrawals over their lifetimes.** The entire account balance must be distributed within 10 years after the date of death.
- **Repeal of maximum age for traditional IRA contributions.** So long as there is earned wage or (consulting) income, an IRA contribution can be made.
- IL has an issue when people sell their houses with the Real Estate Tax Credit. We pay IL real estate taxes a year behind so on your closing statement, there are taxes from last year (payable in 2022) and for the part of 2022 you lived there (payable in 2023). Since you lived there and paid it all in 2022, we can take all payments for the IL credit. We have been letting you know to expect an IL notice and we have a form letter to respond showing all the taxes paid before and at the closing!

THINGS TO CONSIDER DOING THIS SUMMER:

1. **Review your withholding.** Your income may be higher or lower in 2022 than in years past. Many of us have had a cut in salary or may not be getting the bonus we expected. We recommend that we review your withholding for 2022 (with the all-new W-4), so you might get more take home pay which you might need now.
2. **Please review your health insurance now** to see what it covers and what it does not. Also, if you are furloughed or laid off, please check the cost of COBRA. You also might be eligible on your spouse’s plan or through the Health Insurance Exchange due to special circumstances. Please be careful of less expensive high deductible plans – they sound good but can be very costly if you require hospitalization or major medical treatment.
4. **Review your 401K/ IRA and Other Investments**
Many of us have several IRAs and investment accounts and have never or hardly ever reviewed how they are performing or what they are invested in. Consider:
 - **Making lists** of all accounts, passwords, and contact information
 - **Making an appointment** with your broker or financial advisor to review performance.
 - **Considering if this is a good time to change and/or consolidate investments.**
 - **Reviewing your investments** and possible tax strategies with us or another objective professional.
3. **Consider rolling over part of your IRA to a ROTH.** The stock market is way down right now and it might be a good time to do a ROTH conversion. Yes, you pay the taxes (only Federal) now but then you have time to grow the IRA tax free and your beneficiaries do not have to either pay tax on a ROTH or withdraw it on a fixed timetable like an inherited IRA.
4. **Look at I Bonds as a tax savvy and excellent investment.** The U. S. Treasury announced that the initial annualized rate on new Series I bonds sold from May to October 2022 is 9.62%! You need to hold it for at least a year- the rate is reset every six months based on a formula tied to inflation. They can be bought online at [Treasurydirect.gov](https://www.treasurydirect.gov). Or call us and we can help you- they DO NOT sell paper

bonds anymore. Another plus- they are NOT taxed in IL.

5. Read your Trust or Will - or have one done now!

Many of us have not looked at our will or trust in five years - or often 10 or more years. And at least one third of us do not have even a will! Your will or trust defines who will manage your affairs and money if you become incapacitated or pass away. Your will or trust defines who will get your assets and in what percentage. NOW is a good time to review who is your executor or trustee and what you have - before it is too late. We work with attorneys in the area all the time and review trust documents with you for possible tax issues.

STRAUSS TAX SERVICE NEWS! For this tax season, we have set up an office at 6900 Main Street, Suite 209, Downers Grove. Besides being available to work with you in person there, you have been able to drop off documents and tax information or have Beth pick up your tax information. We are still there at this time and can meet you there, work with you on the phone or via Zoom and get/return tax documents via FEDEX or with Beth picking up and dropping off. Our phone number has been ported to a cellphone: 630.964-4018 and while we are not on it 24/7, we do return all calls.

STRAUSS TAX SERVICE

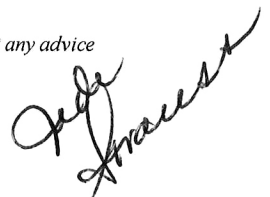
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We continue to have an active Facebook Page- which is updated often. We also post both our newsletter and tax law updates on our website: www.strausstax.com. Or please call us if you have a question! We are here, as always - on the phone, via Zoom or soon in person too, to answer your questions, and work to give you good tax and financial advice on retirement planning, estate, and trust taxes (after a loved one passes on) and the full range of the new and complex tax laws now.

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Pursuant to federal regulations imposed on tax professionals who offer tax advice (Circular 230), we are required to advise you that any advice

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