BEE BERGVALL & CO.
Certified Public Accountants

936 Easton Rd., PO Box 754, Warrington, PA 18976 | 130 Almshouse Rd. Suite 201A, Richboro, PA 18954
215-343-2727 | www.bbco-cpa.com

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Dear Clients and Friends:

As we wrap up 2022, it is important to take a closer look at your tax and financial plans to make sure they are consistent with your financial goals. Each tax situation is unique and if you have questions, we are available by phone, in person, or virtual meeting.

For your convenience, we offer several options for providing us with your tax documents. These include the secure SafeSend portal, the US mail, and a lockbox at our Warrington location.

The advantage of the SafeSend portal is:
- Quick and secure transfer of documents.
- Digital, fillable organizers for you to complete at your convenience.
- Electronic signatures will enable you to e-sign tax documents.
- Electronic payments via credit cards are accepted.

Considerations for 2022:
- With the passage of the Inflation Reduction Act of 2022, there are new tax incentives to consider.
- Several tax provisions have expired or will soon.
- Major changes in your life, such as marriage or divorce, a birth or death in the family, job or employment changes, starting a business, and significant expenditures (real estate purchases, college tuition payments, etc.), could impact your tax situation.

Check with your tax advisor if adjustments need to be made to your withholding and estimated tax payments, or to discuss tax planning strategies.

INDIVIDUALS

Standard Deduction:
For 2022, the standard deduction amount increased to $12,950 for single filers and $25,900 for married joint filers.

Charitable Contributions:
Last year, individuals **who did not itemize** their deductions could take a deduction of up to $300 ($600 for joint filers). However, this opportunity is no longer available for the tax year 2022. For those **who do itemize** their deductions, consider gifting appreciated stocks directly to a qualified charity in lieu of cash.

A qualified charitable distribution (QCD) allows individuals who are 70½ or older to donate up to $100,000 total to one or more charities directly from a taxable IRA instead of taking their required minimum distributions (RMD).

Medical Expenses:
Reduce 2022 taxable income by contributing to a Health Savings Account (HSA) or Flexible Savings Account (FSA).

Itemizers can only deduct unreimbursed medical expenses that exceed 7.5% of your adjusted gross income. If you are approaching or have already met the threshold, consider scheduling appointments for medical, dental, and/or orthodontic procedures before year-end.

Retirement Plans:
Reduce 2022 taxable income by contributing to traditional IRAs and/or employer-sponsored retirement plans to the extent you are eligible.

If you were 72 or older in 2021, **you must** take an annual RMD (required minimum distribution) beginning in 2022. Those who turned 72 in 2022, have until April 1, 2023, to take their first RMD; you may want to take it by the end of 2022 to avoid having to double up on RMDs for 2023. A waiver of the 50% penalty is available if you inadvertently missed taking your RMD in 2021 or 2022.

Additional tax and financial planning considerations to discuss with your tax advisor:

- Section 529 prepaid tuition or college savings plans are not subject to federal annual contribution limits and do not provide a federal income tax deduction, but Pennsylvania residents are entitled to a state income tax deduction.
- Tuition payments made directly to an educational organization on behalf of a person, and payments for a person's medical care made directly to the provider are not treated as taxable gifts, nor do they erode the $16,000 annual gift exclusion.
- The annual gift exclusion amount for 2022 is $16,000 per person and a married couple can gift up to $32,000 per year, per person. Gifts made up to these amounts will not reduce their lifetime exemption or result in the federal gift tax.
- Assets held for over one year are taxed at 0%, 15%, or 20%, depending on the taxpayer's taxable income. If you hold long-term appreciated-in-value assets, consider selling enough of them to generate long-term capital gains that can be sheltered by the 0% rate.
- The sale or exchange of virtual currencies, the use of such currencies to pay for goods or services, or holding such currencies as an investment, generally have tax impacts and the IRS continues to increase its scrutiny in this area.
- The Inflation Reduction Act of 2022 included new and newly expanded tax credits for solar panels, electric vehicles, and energy-efficient home improvements. The rules are complex and elements of the law are not in effect until 2023.
- If you were in a federally declared disaster area, and you suffered uninsured or unreimbursed disaster-related losses, you can choose to claim them either on the return for the year the loss occurred (in this instance, the 2022 return normally filed next year) or on the return for the prior year (2021).

BUSINESSES

Year-end Bonuses:
Bonuses can be timed for maximum tax effect by employers. Check with your tax advisor to discuss your best strategy.

Establish a Tax-Favored Retirement Plan:
Retirement plan rules allow for significant deductible contributions. For example, if you're self-employed and set up a SEP-IRA, you can contribute up to 20% of your self-employment earnings, with a maximum contribution of $61,000 for 2022. If you're employed by your own corporation, up to 25% of your salary can be contributed with a maximum contribution of $61,000.

Business Meals:
There is a 100% deduction (rather than the prior 50%) for expenses paid for food or beverages provided by a restaurant. This provision expires at the end of 2022.

Energy Tax Credits:
There are many tax incentives to encourage businesses to decrease their carbon footprint and become more environmentally sustainable.

Additional tax and financial planning considerations

- If you deferred self-employment or payroll taxes from 2020, the second 50% payment is due by Dec. 31, 2022. The payment process is the same as the first 50% payment you should have made by Dec. 31, 2021.
- The Employee retention credit (ERC) encouraged businesses to keep employees on their payroll during the pandemic. Although these credits relate to tax years 2020 and 2021, applying for these credits is still available.
- For the tax year 2022, the maximum allowable contribution deduction is limited to 10% of a corporation's taxable income (as compared to the temporary increase of 25% that was in effect last year).
- IRS Forms K-2 and K-3 — These new forms can require much effort and potentially apply to even smaller entities. The IRS announced an additional exception to the requirement to complete and provide these forms.
- Starting in 2023, the bonus first-year depreciation begins to phase out. The new limit is an 80% bonus deduction for machinery and equipment bought used (with some exceptions) or new if purchased and placed in service for 2023, and for qualified improvement property, described above as related to the expensing deduction.

The information in this letter is based on federal and state tax laws in effect as of the publication date of this letter. Please consult with us before implementing any of the above tax strategies. It is always our goal to provide you with timely and professional tax preparation and advisory services.