THE ADVISER

WHITE & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS

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INSIDE.....

IMPORTANT DUE DATES

Within 3 days of payroll	-Due dates of employer's Social Security and withholding tax deposits by EFTPS if the IRS has determined you pay semi-weekly
Jan. 17, 2023	**-Due date of 2022 Estimated Tax Payment No. 4**
Jan. 17, 2023 Feb. 15, 2023 Mar. 15, 2023 Apr. 18, 2023	-Due dates of employer's Social Security and withholding tax deposits by EFTPS if the IRS has determined you pay monthly
Jan. 25, 2023 Feb. 27, 2023 Mar. 27, 2023	-Due dates of monthly state excise tax reports
Jan. 31, 2023	-Due date of Form 940 deposit for 4th quarter 2022 -Due date of employer's payroll tax reports, Form 941, 940, 943, Unemployment, State L&I and State Paid Family Medical Leave reports -Due date for 4th quarter 2022 state excise tax report -**Due date for W-2s to be issued to employees** and filing deadline for employers to submit Forms W-3 and W-2, Copy A to the Social Security Administration -**Due date for all Forms 1099s to be issued to recipients**
Feb. 28, 2023	-Due date to submit all Forms 1099 to the IRS if paper filing or March 31, 2023 if e-filing, however, the due date for giving these forms to the recipients remains January 31, 2023
Mar. 1, 2023	-Due date of 2022 Form 1040 income tax returns for farmers and fishermen who did not pay an estimated tax payment on January 17, 2023
Mar. 15, 2023	-Due date for calendar-year Form 1065 Partnership income tax returns for 2022 -Due date for calendar-year Form 1120S Corporation income tax returns for 2022
Apr. 17, 2023	-Due date for annual state excise tax report
Apr. 18, 2023	**-Due date of 2023 Estimated Tax Payment No. 1** -Due date for calendar-year Form 1120 Corporation income tax returns for 2022 -Due date of 2022 Form 1040 individual income tax returns. If you expect to owe tax, the tax is due now even if you extend filing your tax return until a later date -Due date for Form 1041 Trust and Estate tax returns for 2022 -Due date for IRA, SEP and Simple contributions for 2022

THESE CHANGES COULD AFFECT YOUR INCOME TAX FOR 2022

Several tax credits that were available on your 2021 income tax return, due to temporary COVID tax changes, return to their 2019 levels. This means that affected taxpayers will likely receive a significantly smaller refund in 2022 compared with the previous tax year. Changes include amounts for the Child Tax Credit (CTC), Earned Income Tax Credit (EITC) and the Child and Dependent Care Credit.

- Those who got $3,600 per dependent in 2021 for the CTC will, if eligible, get $2,000 for the 2022 tax year.
- For the EITC, eligible taxpayers with no children who received roughly $1,500 in 2021 will now get $500 or less in 2022.
- The Child and Dependent Care Credit returns to a maximum of $2,100 in 2022 instead of $8,000 in 2021.
- Also for 2021, taxpayers could take up to a $600 charitable donation tax deduction on their tax returns. However in 2022, there is no before-the-adjusted-gross-income line deduction for any charitable donations.

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TIDBITS

- Phone scams target men age 65 and over. In 2021, phone and text message scams victimized 68.4 million Americans, stealing a record $39.5 billion. Men of all ages are more likely than women to lose money to such scams.
- To save money on gas, get the junk out of your car's trunk. The EPA estimates a 1% gain in fuel mileage per 100-pounds-reduction, saving about five cents per gallon.
- Inheritors have finally been found for the largest amount of unclaimed money in U.S. history. Joseph Stancak, a Chicago resident died in 2016 with no known heirs. His $11 million estate will be split among 119 distant relatives in the U.S., Poland, Slovakia, Germany, the Czeck Republic and the UK, none of whom had ever heard of him. Each one will receive about $60,000 after taxes.
- Most parents know that raising children is expensive. How expensive? A middle income couple with two children will spend an average of $18,271 per year per child through age 17, $310,605 in total through high school!
- Homes with well maintained trees sell for up to 15% more than similar homes without trees. However, homes with poorly maintained trees that block views or require a lot of care can hurt a home's sale value.
- Only 48% of U.S. high school seniors score average or above on a financial literacy exam. Maybe this is why there is student loan debt of $1.6 trillion owed by U.S.
- During the COVID 19 pandemic 2.4 million more people retired over the normal rate.
- Businesses in the U.S. spend over $370 billion on leadership development per year. It appears questionable that the U.S. government spent any!
- The definition for fintech is "computer programs and other technology used to support or enable banking or financial services". Currently, 89% of U.S. residents use some form of fintech.
- Approximately 38% of personal loans granted in the U.S. are done by fintech firms.

RETIREMENT PLAN CHANGES INCLUDED IN $1.7 TRILLION SPENDING BILL

These changes known as Secure Act 2.0, included with the spending bill, will change the way Americans save for retirement starting in 2023. The changes that will be detailed here are: an increase in age when the required minimum distribution (RMD) has to be taken, allowing unused 529 accounts (these are tax-advantaged savings plans for education expenses) to be rolled over to a retirement account, increase in the amount of catch-up plan contributions for those over age 50 and emergency withdrawals from a 401(k) or IRA.

Currently, in the year you turn 72 a RMD is required from all of your retirement accounts except a Roth account. In 2023, the age will increase to 73 and in 2033, the age increases to 75.

An additional RMD change reduces the penalty for missing the RMD from 50% of the RMD amount to 25%, and down to 10% if the RMD amount is taken by the end of the next year.

If a family has leftover funds in a 529 account that are not used for education purposes and they withdraw them, currently they are assessed a 10% penalty on withdrawal and potential income tax on gains. Starting in 2024, the Secure Act 2.0 allows 529 account beneficiaries to rollover up to $35,000 (the lifetime amount) into a Roth IRA. The 529 account needs to have been open 15 years and the annual rollover amount is limited to the annual Roth contribution limit.

Currently, those over 50 can invest an additional $7,500 to their 401(k) or 403(b) in what is known as a catch-up contribution. That amount will increase to $10,000 starting in 2025 for those ages 60 to 63.

Additionally, starting in 2024, the IRA catch-up limit for those over 50 will be increased for inflation each year. Currently, it is a flat $1,000 extra per year.

Congress is always looking to get more tax revenue so starting in 2024 people doing catch-up contributions that have income of at least $145,000 will have to put the catch-up in a Roth. Since the Roth catch-up is not tax deductible, taxes will be paid on the catch-up so Congress can spend more!

Additionally, to gain tax revenue, employers with a 401(k) Plan containing a Roth feature can now do a Roth match. Since Roth contributions are not deductible, the employee will have to pay tax on the employer's Roth match and any growth when taking distributions.

The legislation will make it easier for workers to withdraw funds from their retirement accounts penalty-free in the case of personal or family emergencies such as a terminal illness or natural disaster. These withdrawals are only penalty-free (a 10% penalty), and will still be subject to income tax.

One emergency distribution up to $1,000 will be permitted each year starting in 2024. If the taxpayer does not repay that $1,000 in three years, they cannot take another distribution during the three-year time frame.

FORM 1099K

In late December 2022, the IRS bowed to pressure and delayed the new $600 reporting threshold for Form 1099K for one year. Many tax professionals believe this will help avoid (at least for one year) potential chaos for the 2023 tax filing season.

The delay will also allow taxpayers the opportunity to make sure what will cause them to receive a Form 1099K from a third-party network such as Venmo, PayPal, eBay, etc. and understand what the income tax effect of receiving a Form 1099K will be.

INCREASE RETIREMENT PLAN CONTRIBUTIONS IN 2023

The maximum contribution to 401(k)s, 403(b)s and most 457 plans will rise by $2,000 to a maximum of $22,500. The catch-up contribution limit for employees aged 50 and up who participate in such plans will also increase to $7,500, to a maximum of $30,000 annually.

The traditional and Roth IRA contribution amounts increase to $6,500, however, the over 50 catch-up amount remains at $1,000.

INFLATION REDUCTION ACT

Even though it appears this Act will not reduce inflation or pay for itself, it has some tax incentives included. First, you will get a 30% tax credit on the cost of new household clean energy systems such as solar, wind or geothermal systems that produce electricity or heat. The credit applies to projects completed in 2022 through 2032.

The up-to-$500 credit for Energy Efficient Home Improvements increases up to $1,200 per year. This is for energy-saving improvements such as adding insulation or putting in new windows. This 30%-of-costs credit also has incentives to purchase certain electric energy-efficient appliances.

The law renewed the $7,500 Clean Vehicle Credit for new electric vehicles, which was set to expire at the end of 2022. It also added a 30% tax credit (capped at $4,000) for used electric vehicles.

To pay for all of these energy saving costs, the law imposed a corporate minimum tax estimated to raise $313 billion, allow Medicare to negotiate drug costs, raising $288 billion and gives $80 billion in funds to the IRS in order to increase tax compliance for an estimated increase of $203 billion.

IS A ROTH CONVERSION IN YOUR FUTURE?

With the current down position of the market, now might be a good time to consider a Roth conversion. You will have to pay income tax on the converted funds for the year of the conversion. But once the money is in the Roth IRA, contributions (the conversion amount) can be taken out after five years or when you reach age 59-1/2. Future earnings that you take from the Roth account are tax-free, provided you are 59-1/2 or older and at least five years have passed since you first put funds in any Roth IRA, either by contribution or through a Roth conversion.

Present and future income tax rates are key in figuring whether a Roth conversion makes sense taxwise. If you expect the tax rate that you will pay in retirement will be equal or higher than the rate at conversion, then switching to a Roth IRA can pay off, provided you do not have to tap IRA funds to pay the tax bill on the conversion. If your income tax rate in retirement will be lower, tax-free Roth payouts are less advantageous. Federal income tax rates are low right now, but the lower tax rates will expire after 2025 unless Congress acts. One also has to consider the possibility of future tax rates increasing or decreasing.

Now turn to other factors to consider when pondering a Roth conversion. There are no required minimum distributions for owners of a Roth. Keep in mind, though, that if you are 72 or older at the time of the conversion, you must first take your RMD from your traditional IRA for the year of the switch. You do not need to convert the entire IRA amount to a Roth at once. You can transfer the money in increments over time and space out the tax hit, consider doing a conversion annually. Converting can pay off if you expect your Roth IRA assets will increase in value. A Roth conversion can be done at any age but if you are on Medicare, be aware a Roth conversion can trigger higher Medicare premiums.

Another thing to consider, you cannot undo the conversion for tax purposes. The 2017 tax return law ended so-called recharacterizations of Roth conversions. You can still convert your traditional IRA to a Roth, but you will not be able to undo it. So, if you do a Roth conversion, you are stuck with your original income tax bill, even in cases where your Roth IRA assets decrease in value soon after the conversion.

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ROTH IRA VS. 401(K) ROTH

Not all Roth accounts are the same, and if you misunderstand the many differences it can cost you thousands of dollars. Why should you put money into a Roth? How much can you put into a Roth? When can you take money out of a Roth? Is it smarter to put money in a Roth IRA or a Roth version of your 401(k) which many employers now offer? These are all questions that have answers that need to be evaluated.

Facts you need to know to help in your evaluation of these questions: Income is never taxed in a Roth IRA and Roth IRAs have no required minimum distribution (RMD). Avoiding RMDs, which start at age 72, is one of the investment and tax advantages of the Roth IRA. Unless you are still working at age 72, Roth 401(k) owners are required to take an RMD. ***However, you can sidestep the RMD requirement by rolling a Roth 401(k) into a Roth IRA.***

The limit on the amount you can contribute to a Roth IRA is less than to a 401(k) Roth. The Roth IRA contribution limit for 2022 was $6,000 and for 2023 is $6,500, plus $1,000 for age 50 and older. A 401(k) Roth worker can defer up to $22,500 for 2023 plus $7,500 if you are 50 or older for a total of $30,000.

The Roth IRA contribution can only be made if you are a married couple filing joint and your adjusted gross income (AGI) is less than $204,000 for 2022 and $218,000 in 2023. There are no income restrictions on contributions to a 401(k) Roth. So, regardless of your married filing joint AGI in 2023 an individual who is over 50, can contribute as much as $30,000 to a 401(k) Roth. However, remember this contribution will not save income tax and you will be paying taxes on the money without having it! If filing single, your AGI needs to be less than $144,000 for a Roth IRA contribution.

One disadvantage of the 401(k) Roth is it limits you to the investment options made available by your employer's plan. You can sidestep this problem by an in-service rollover to your Roth IRA. Check your plan documents to make sure in-service rollovers (withdrawals) are allowed. Roth IRAs allow you to invest in most publicly traded investments.