



## DEAR CLIENTS,

Happy Holidays! We would advise you to read through this letter, as there are some suggestions for things that you may need to address before year-end. This year the tax filing deadline is April 18th, 2023.

We hope that this has been a good year for you. We still haven't caught up with the disruptions that Covid has caused and is still causing. The IRS is still very far behind processing many returns. It takes multiple attempts to get anything resolved, and it is certainly frustrating for both clients and accountants. With a new IRS commissioner coming in, we can only hope that things improve.

Another change that Covid has brought which I think is positive is that there are multiple ways to get your taxes prepared. We can work through Zoom, by phone, or by email. Keep in mind that some staff do only work virtually so in person appointments may not be possible. Please let us know your preference, and hopefully we will connect in a safe, secure way that works for everyone.

We will need to get your documents in advance of your appointment. At least a week in advance would be best. The first choice would be for you to upload your documents to our secure document portal as this is the safest way to get us documents. If you would like, you can list us with your banks, brokerages, and private equity investments as third parties for digital delivery of documents. If you do that, your brokers and banks can send us your documents directly in a secure manner. Some employers will do the same thing with your W-2's.

I am not a big fan of software changes, but we are changing our portal system again. We know that we just switched to SmartVault last year. We did it because it supposedly integrated with our tax software more efficiently. It ended up being too quirky and not particularly popular with a lot of clients and staff. So we went back to the drawing board, and we found an absolutely phenomenal product. We have tested it on the client side, and it is easy to use. It is called SafeSend. It is easy to set up, and it has the capability for us to help you onscreen if you struggle with technology. We hope you will love it as much as we do. We hope to never have to change again. This program will be used for you to share documents with us, and for us to share documents with you.

We do understand though that not everyone has the same level of tech abilities, so if you need to send us your physical documents, you can send them to our office address. They can be dropped

off in person or mailed by any common carrier. If using USPS, please choose a mailing option with tracking ability.

If you have an IRS PIN, starting in January you will need to apply for a new PIN number. Do not do it before January because it will expire on December 31st. If you do not have an IRS PIN number, you are not required to get one. Unless you have been a victim of a fraudulent tax filing, the IRS PIN number system is optional. That might change. The IRS is thinking of imposing a mandatory PIN system. We will let you know if that happens.

You are not required to have an appointment for us to do your tax return. We know some of you like to have an appointment, while others prefer to send in their information, and just wait for us to contact them with questions. We are happy to work with you in any way that makes you comfortable.



# SCHEDULING YOUR APPOINTMENT

- You can call us to set up an appointment. Please call the main phone number, 212-929-3341, and press 1 when prompted for the receptionist. Please do not call your preparer directly to make the appointment as they are usually with a client, and you will most likely end up in their voicemail. It is much more efficient to use the receptionist for scheduling.
- Please schedule your appointment as soon as possible. As you know, we tend to book up by early March. Remember that there is no need to wait until you have all your papers to schedule your appointment. Anything that is missing can be added later.
- As we said above, to save time during your valuable appointment, it is often helpful if you send your tax information to us at least one week in advance of your appointment. You can also add us to any tax mailings from your financial advisors or institutions.
- If you have any open invoices with us, you will not be able to schedule your appointment for your 2022 taxes. If you have extenuating circumstances that you need to discuss relating to this, please contact Linna Yee in our office by phone or by email at [linna@sjtax.com](mailto:linna@sjtax.com).
- If we prepare your Partnership, Corporation, Estate, or Trust tax returns, please schedule your appointment in January. If you have an LLC in New York, see the "NYS LLC" section below. Calendar year S-Corporation and Partnership tax returns are due by March 15th, 2023. C-Corporation and Fiduciary returns are due April 18th, 2023 unless you are a fiscal year filer.
- If you can't get an appointment with us before April 18th, don't panic. We can always file an automatic extension for you. This will allow you additional time to file your tax return. Generally, the extension is six additional months for individuals and five additional months for most other types of tax returns. For fiduciary returns, the extension is for five and a half months. However, you must still pay your taxes by April 18th. We don't automatically file an extension for clients that we have not heard from. We will only file an extension for you if you ask us to do so.
- An extension only extends your time to file your return, not to pay your taxes. If you know in advance that you want an extension, please let us know as early as possible, and we will be happy to help you calculate whether or not you need to send money with your extension. An extension does not extend your time to open and fund an IRA, which must be done by April 18th, 2023.



## WHAT TO PROVIDE FOR YOUR APPOINTMENT:

- Any information related to changes to your marital status, dependents, address, phone number, email address, or bank account.
- If either you or your spouse renewed your driver's license since last year, please provide us with a copy of the front and back of the license.
- All W-2 and 1099 forms that you receive; make sure you have a W-2 from each 2022 employer.
- An **itemized** and **totaled** list of your deductible expenses. Last year's return can serve as a guide to you for the categorization of expenses. If you are married, please prepare separate lists.
- A list of your estimated tax payments and the dates paid. The last check may be dated January 18, 2023.
- Social Security cards and birth certificates for all your new dependents.
- The six-digit Identity Protection PIN for you and your spouse, if you obtained them. Do not upload or email the number to us.
- If you sold stocks, bonds, cryptocurrency or mutual funds, we would need the dates purchased and the cost basis. If you have many transactions, please send the information at least a week before your appointment. If you are a partner, shareholder, or beneficiary of a partnership, S-Corporation, LLC, LLP, or trust, we will need a K-1 form. If they haven't arrived by your appointment date, we can add the information later.





## IF YOU ARE SELF-EMPLOYED / FREELANCE, BRING:

- The figures for your total income. Please review your bank deposits for the year to make sure that you are accounting for all of your income. In the event of an audit, the IRS compares your bank deposits to the amount reported on your tax return. That is why checking your bank deposits is so important.
- An itemized and totaled list of your expenses.
- A separate list of any items purchased in 2022 with a life greater than one year and a cost greater than \$2,500 (i.e., equipment). We will need the date each item was purchased.
- If you use QuickBooks Desktop, please send a backup copy of your file at least a week before your appointment.
- If you use QuickBooks Online, please invite your preparer to access your file.



## APPOINTMENTS ARE NOT ALWAYS NECESSARY

As always, we can prepare your returns without an appointment. Please advise us of any changes to your marital status, dependents, address, phone numbers, email address or bank account. Please have all 2022 information to us by March 24th. If you have sent us your tax information and haven't heard from us within two weeks, please call our office to make sure your package has arrived. It is always wise to keep copies of all of the information that you send us. In fact, we prefer not to have originals. Digital copies are best because they can be sent securely.

## 1099 & W-2 PREPARATION

- If you are self-employed or in business and have paid \$600 or more by cash or check to an individual or unincorporated business, including LLC's, who have performed services for you this year, you are required to issue that contractor a 1099-NEC. The deadline for filing 1099 forms with the IRS is January 31, 2023, which is the same day that you must send them to your payees. Please do not forget to file your 1099 forms. The IRS can disallow your deductions for payments to subcontractors if you do not send them 1099 forms. There are also penalties for not filing 1099's. The later they are, the greater the penalty. The maximum penalty is \$290 per missing 1099 form, unless it is found to be intentional, and then it is \$580. Please file your 1099's.
- You do not include in your 1099's payments that you pay by credit card, PayPal, Venmo, Square or Stripe since they issue their own 1099-K forms. Payments made by Zelle do need to be included in the 1099's that you issue. That is because Zelle does not hold funds. They are a peer-to-peer network.
- 1099 Alert - The IRS still has the question on the tax return that specifically asks if you made any payments in 2022 that would require you to file a form 1099, and if yes, did you file all the required 1099 forms. This question makes it even more imperative that you file all required 1099 forms.
- If you have any employees, you must provide W-2's to them by January 31, 2023. The deadline for filing these forms with the IRS is also January 31, 2023.

*If you need our help in preparing either of these forms, please contact us in January.*

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## FINAL ESTIMATED TAX PAYMENTS

If you itemize your deductions, for some of you it is advantageous to pay your January state and local estimated tax payment by December 31, 2022. This only applies if your total state, local, and real estate taxes paid so far in 2022 is less than \$10,000. NYC UBT and NY MCTMT estimates should be paid before December 31st. If you have had any major changes in your income that would require a change in your estimates, please contact our office before year-end. There is a fee for year-end tax planning.

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## NYC UNINCORPORATED BUSINESS TAX (UBT) AND NY MCTM TAX

For taxpayers with a profit of less than \$100,000, there is no UBT. If your profit will be less than \$100,000 and you are currently paying UBT estimates, do not pay your last quarter's estimated tax.

The MCTM tax is imposed on all NYC and its surrounding counties for businesses with a profit of \$50,000 or greater. This tax is calculated at 0.34% of the business profit. This tax is not phased in. Once your profit exceeds the threshold, you pay 0.34% on everything.

# POTENTIAL TAX CHANGES BEFORE YEAR-END

Just as it was last year when we wrote this letter, we do not know what tax changes may be passed that will affect 2022 tax filings. Rather than guess, we will just need to wait and see, and we will send out updated information if anything passes before the end of the year that you need to act on.



## UNEMPLOYMENT BENEFITS

If you collected Unemployment in 2022, most states, including New York, do not mail 1099 forms for unemployment income to taxpayers. You must log on to your account to retrieve the 1099 form that will be issued in January. Unemployment compensation is taxable on your federal tax return. States have different rules. New York taxes unemployment. NJ, PA, and California do not.



## HEALTH CARE SUBSIDIES (HEALTH INSURANCE PREMIUM TAX CREDIT)

If you want to get insurance through the health marketplace, you can find your state exchange at [www.healthcare.gov](http://www.healthcare.gov). You may be entitled to subsidies for your health insurance. The only way to get those subsidies is if your insurance was obtained on the Exchange. They do not apply if you obtain insurance privately. The exchange is only open from November 1st to January 15th, so you must do this quickly. If you are eligible for Medicare, Child Health Plus or the NYS \$20 per month Essential Plan, you can apply all year round.

For 2023, there are still expanded marketplace premium subsidies that will now completely cover the cost of silver plan insurance for people with income up to 150% of the Federal Poverty level. This reverts to the old rules for 2023, but you should check the exchange if you need insurance to see if it will cost you less than you think. Before the American Rescue Plan of 2021, you were not eligible for a subsidy if your income was more than 400% of the Federal Poverty Level. Now, even if your income is greater than that, you may be entitled to a subsidy. The subsidy will ensure that you do not pay more than 8.5% of your income for Silver Plan health insurance.

If you did get your insurance on the Exchange and you were given a subsidy, that subsidy was based on the income you estimated. When we prepare your tax return, we must reconcile the subsidy that you were given with the subsidy that you are entitled to receive based on your final income. If you were given too much of a subsidy, you will owe it back to the IRS as part of your tax return. If you were not given a high enough subsidy, you will get a credit for it on your tax return which could result in a refund or a reduced balance due.

If your insurance was Medicaid or the NYS Essential Plan you will not need to pay anything back, even if your income goes above your expected income.

If your health care came from the Health Care Exchange, we cannot file your tax return without Form 1095-A. The exchange must issue this form to you, and you must share it with us. You can download the form from your state's health care exchange.

# CAPITAL GAINS TAX AND DIVIDEND TAX RATES

For most taxpayers, federal tax rates on long term capital gains and qualified dividends will remain at 15% for 2022. Please don't forget that in addition to federal tax on capital gains and dividends, there is also state tax to pay.

For taxpayers in the top 37% tax bracket, the federal tax rate for long term capital gains and qualified dividends is 20%. This means that combined with the net investment income tax, your federal tax on long term capital gains will be as much as 23.8%.

If you do have capital gains and you are in the lowest tax bracket, you have a zero federal capital gains tax and zero federal tax on qualified dividends. If that applies to you, you may not want to offset your capital gains this year (as detailed below). This provision applies to single filers with less than \$41,775 of taxable income (\$83,550 for married jointly). As mentioned above, this zero percent rate does not apply to state taxes.

If you have sold assets and were lucky enough to have realized capital gains this year, you should examine your portfolio and think about selling some of your losing investments to help offset your gains. You are allowed to deduct capital losses to the extent that you have capital gains. In addition, you can deduct another \$3,000 in losses against other (non-capital gain) income. Any net losses in excess of \$3,000 can be carried forward to future tax years for federal tax purposes. Most states follow this, but New Jersey does not. For New Jersey, losses in excess of capital gains cannot be deducted and do not carry forward.

If you do sell a stock at a loss, you cannot buy back that stock within 30 days before or after the sale. If you do, the deduction for the loss is not currently allowed. It is suspended until you sell the stock and don't rebuy within 30 days. You need to review your mutual fund statements to see if they have paid out any capital gain distributions in 2022. Even if they were reinvested, those capital gain distributions are taxable in 2022. Those can be offset with capital losses. If you are at the zero percent long term capital gain rate, you may want to save your losses for the future.

Obviously, investment objectives must be considered when deciding whether to hold or to sell an investment. Taxes are only part of the decision of when to sell.

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## STUDENT LOAN DEBT RELIEF

I am sure you have all read about the federal bill where eligible borrowers can get a full or partial discharge of loans up to \$20,000. It is \$10,000 for most borrowers and up to \$20,000 for borrowers who qualified for Pell grants. Currently that relief has been blocked by the courts. You cannot create a new application until that is resolved. To qualify for relief, your adjusted gross income must be less than \$125,000 for single filers, and \$250,000 for married filing jointly filers for either 2020 or 2021. Your income must be below that threshold for either of the years not necessarily both years. Keep an eye on the news, and if it is resolved in favor of the federal government, you should apply for relief.



## CRYPTOCURRENCY

For the last few years, the IRS has been working on an initiative on cryptocurrency reporting for taxes. Multiple cryptocurrency exchanges have shared information with the IRS, which resulted in thousands of letters being sent out to people that they knew had cryptocurrency sales but had not reported them on their tax returns. This initiative has been very successful in catching people that had not reported sales, so the IRS is continuing with this program. The IRS has modified the question they ask about cryptocurrency again this year, so this is still a big focus. They now ask if you have investment or involvement in cryptocurrency. So, it is very important that you track and report all cryptocurrency sales.

If any of the cryptocurrency exchanges that you invest in is on a foreign exchange, you must report the assets on the foreign reporting forms. See section below.

If you have not done this in the past, let us know if we need to amend any tax returns. Please reach out to us before tax season begins.

For digital assets acquired on or after January 1, 2023, brokers will be required to report the cost basis and taxable gain or loss when a customer sells a digital asset.

For transactions after December 31, 2023, digital assets will be treated as cash for special reporting rules. This means that for transactions where digital assets are used for purchases of \$10,000 or more, a reporting form will be required to be filed with the government.



## DUE DILIGENCE REQUIREMENTS FOR REFUNDABLE CREDITS

For anyone claiming the Child Tax Credit, the Earned Income Credit, or the American Opportunity Tax Credit for college tuition (only available for first four years of college with income of less than \$180,000 for married couples, and \$90,000 for single taxpayers), we will need proof of your dependents' existence. Even if we have been claiming these children on your tax returns since they were born, we will need a copy of their birth certificate and their Social Security card, if not previously provided. Without those two items, we cannot file your tax return claiming these credits.

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## MORTGAGE INTEREST DEDUCTIONS RULES

Under the old rules, which have been grandfathered, mortgage interest is deductible on the first \$1,000,000 of debt on your property as long as that debt was used to buy or improve your home (acquisition debt). Mortgage loans that are used for things other than the purchase or improvement of your home (home equity debt) are no longer deductible. We need to know how much of the debt on your home is acquisition debt and how much is home equity debt.

For mortgages taken after December 14, 2017, the limits on interest deductions are only on the first \$750,000 in debt. If you refinance a mortgage taken prior to December 14, 2017, for the same balance (no additional funds borrowed), you are still grandfathered under the old rules. If you refinance and borrow more, even if it is to improve the residence, then you are subject to the new lower limitations. So, it may be better to take a separate loan for additional borrowing if your original mortgage is greater than \$750,000.

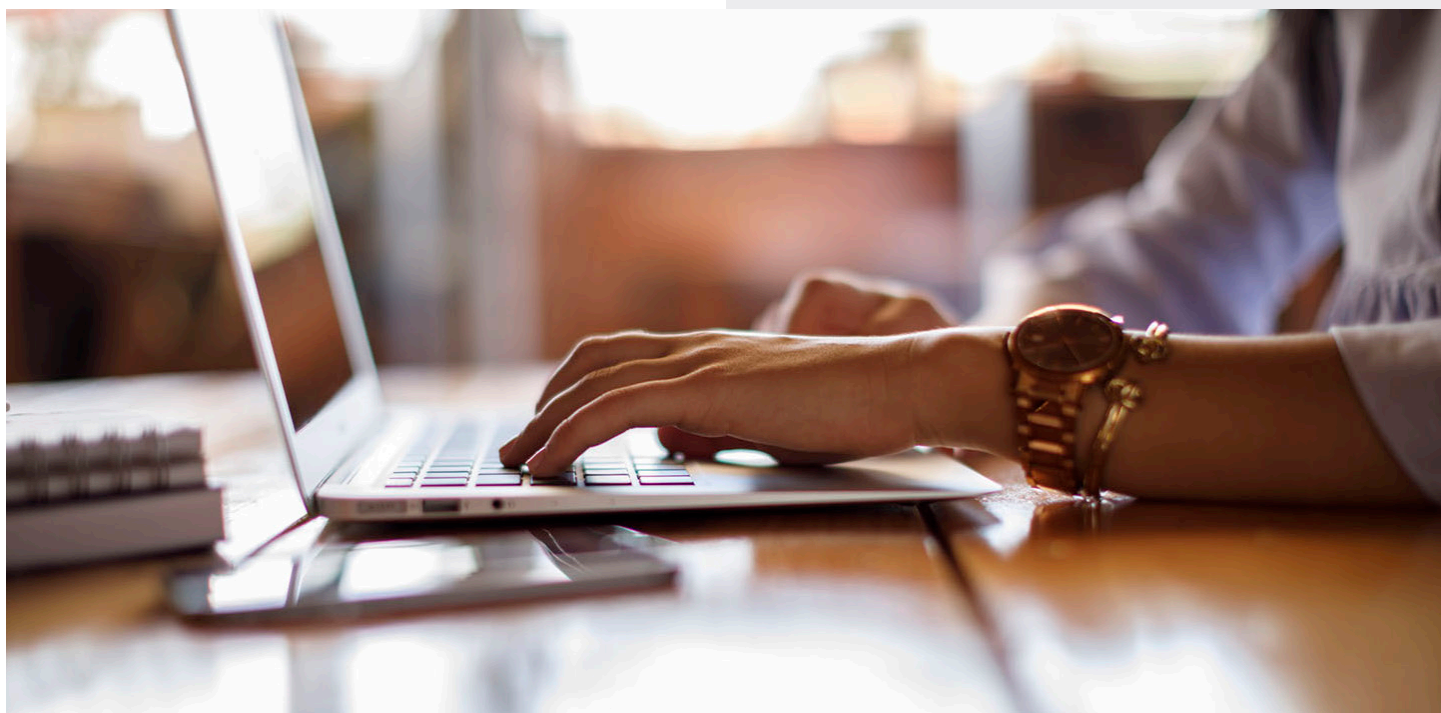
## ITEMIZED DEDUCTIONS ON SCHEDULE A

Nothing of any significance has changed with the itemized deductions for 2022. The standard deductions have been indexed for inflation. For single people under age 65 the standard deduction is \$12,950 and for married couples under age 65, the standard deduction is \$25,900. For single people who are either over age 65 or legally blind, you can increase your standard deduction by \$1,750 (if you are both, it would increase by \$3,500). For married couples, it will increase \$1,400 each for each person who is over age 65 or legally blind.

Our state, local, and property tax deductions are limited to \$10,000 (\$5,000 for married filing separately). With this limit it will be difficult for many people to itemize, particularly married taxpayers since you only itemize if your allowable deductions exceed the standard deduction. To determine if you have enough deductions to itemize, we count medical expenses that exceed 7.5% of your income, up to \$10,000 of taxes, mortgage interest, investment interest, charitable contributions, and a few other more obscure types of deductions. If the total of these deductions exceeds the standard deduction, you itemize, and if they don't, you take the standard deduction.

There are strategies that we can take advantage of to maximize deductions which could include bunching up charitable deductions every few years. I will talk about some strategies for that in the charitable contribution section.

Some states, including New York, have decoupled from the new federal tax laws. That means you can still deduct employee business expenses and higher property taxes for New York. State and local taxes were never deductible on New York. So, if you itemize in New York, you still must keep track of these types of expenses.





## CHARITABLE CONTRIBUTIONS

You must have proof of all charitable deductions taken on your tax return by the due date of that tax return. Cancelled checks and receipts are acceptable documentation for cumulative donations of less than \$250 per year. If your donation to any individual charity is higher than that, you will need a letter from the charity verifying that donation. If you have appreciated stocks that you have owned for more than a year, you can donate those to a qualified charity and get a full tax deduction on the value of the stock without paying any tax on the gain. If you give in kind donations worth more than \$5,000 of the same type in one year, you must have it appraised by a qualified appraiser.

In case you are wondering what we mean by bunching deductions, it means combining a few years (or more) of charitable contributions into one year. This is typically done using something called a donor advised fund. This is a charitable fund where you can donate money in one year, then have it distributed to the charities of your choice over a longer period of time. These funds are offered by Fidelity, Schwab, Vanguard and many others. I will explain the advantage of using donor advised funds.

My example is a married couple under age 65 who have over \$10,000 in state, local, and property taxes, no medical deductions, no mortgage, and typically donate \$10,000 a year to charity. If they do that for five years, they will take the standard deduction for five years of \$25,900 a year. That would give them a total of \$129,500 in deductions over five years. If that same couple donated \$50,000 of appreciated stock to a donor advised fund in 2022, their 2022 itemized deductions would total \$60,000. That is \$10,000 in taxes and \$50,000 in charitable deductions. For the next four years, the taxpayers would claim the standard deduction. In five years, their total deductions would equal \$163,600 instead of \$129,500. If they were in the top tax bracket, that extra \$34,100 would save them approximately \$12,617 in federal taxes. That savings does not include the tax savings they would realize from donating appreciated stock as mentioned above. It also does not consider any potential state tax savings.

If you are 72 or older and you are taking your required minimum distribution from your IRA accounts, you can earmark up to \$100,000 a year for charitable giving. This can be donated directly to a charity and not to a donor advised fund, and the amount that you contribute is deducted right off the top of your income. You can do this and still take advantage of the full standard deduction (or your other itemized deductions). If you are charitable and take RMD's, this is one of the most efficient ways to donate to charity.

## QUALIFIED BUSINESS INCOME (QBI) DEDUCTION FOR BUSINESSES AND RENTAL PROPERTY

Here is how this deduction works. If you qualify, you can get a deduction of up to 20% of your net business income reduced by certain expenses. Whether you are eligible depends on several factors - your income, your profession, and sometimes on your type of business entity. The simplest part of this explanation is for people whose income falls below the income threshold limits for the QBI. If you are single and your taxable income is below \$164,900 (\$329,800 for a married couple filing jointly), you are eligible for a deduction equal to 20% of your business profit (after certain other deductions). There is a phase-out of the income limits. For single people the phase-out ends at \$214,900 of taxable income (\$429,800 for married couples filing jointly). If your income is over that threshold and you are in one of the Specified Service professions, you are not eligible for this QBI deduction. Those professions are accountants (me first), lawyers, physicians and other health professionals, actuaries, performing artists and related professions, consultants, athletes, financial services, brokerage services, investment management, trading, and any business with income coming from endorsements, public appearances, and/or the use of the taxpayer's image. If you are in any of the previously mentioned professions and your taxable income exceeds the maximum threshold, you are out of luck. No QBI deduction for you.

If you are not in one of the professions that I mentioned and your income exceeds the thresholds above, then you potentially are eligible for this QBI. We look at 20% of your profit (less certain deductions), and you compare that to 50% of the wages paid by your business or 2.5% of the business assets that you have on your books that are still within their depreciable life (or 10 years if later) plus 25% of payroll paid. You deduct the lower of the QBI deduction or 50% of the wages paid (or 2.5% of assets plus 25% of wages paid, whichever is higher). If you pay no wages or have no eligible assets, you do not get a QBI deduction at those income levels. For clients in this position who are not set up as corporations, it is possible that we may want to change your business entity. If you become a corporation, you can pay yourself wages, and make yourself eligible for this QBI deduction. This needs to be analyzed on a case-by-case basis. We are happy to do this for you, but there is a fee for our time to do this complex analysis.

Keep in mind that this QBI deduction is available for real estate that is actively managed and shows a profit.

# BUSINESS USE OF AUTOMOBILE FOR BUSINESS TAXPAYERS

In 2022 there are two different figures for the standard mileage rate. For the first half of the year, it is 58.5 cents a mile and for the second half of the year it is 62.5 cents a mile. So, you will need to give us your business miles driven for each of those periods.

In order to deduct expenses for business use of automobiles, you must have a contemporaneous mileage log. You should note where you are going and the mileage. It is also important to always have the mileage at the start and end of the year. This information should always match any repair records that show mileage. If you don't have a proper log, you can lose the deduction completely. With higher standard mileage rates for 2022, bad records can lose you a hefty deduction. Remember that you can't deduct commuting from home to your normal business location. If you work from home and are self-employed, you can deduct the miles to your first other business location. There are free apps for mileage logs. Pick one and use it.

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## EDUCATION INCENTIVES

**Section 529 Plans** - A Section 529 plan is a Qualified Tuition Program which allows you to invest money in a tax preferential way for college savings. New York State will still be offering the New York State College Choice Tuition Savings Program which allows you to deduct up to \$5,000 per person per year for your children's education from your New York State taxable income (that makes it up to \$10,000 for a married couple). You can contribute more than \$5,000 annually; you just don't get a deduction for the excess. If there is a chance that you will file married filing separately, you should each contribute the \$5,000 into your own account. For a NYC resident the tax savings could be as much as \$622 per \$5,000 deduction. The earnings on the account are tax free on the federal and state level if the funds are used to pay for higher education. If you are interested in this program, you can call 1-877-NYSAVES for information. You can also visit their website at [www.nysaves.org](http://www.nysaves.org). You need to have your application and check postmarked by December 31st to get the deduction for this year. You do not have to invest in your own state's Qualifying Tuition Program; you can invest in any of the 50 state programs. If you are a New York State resident and you choose another state's program, you forgo your state tax savings. It is important to remember that if the parent is the donor of a 529 plan, the money counts as part of the parent's assets for purposes of financial aid. If a grandparent is the donor, the plan will not affect the student's financial aid until it is distributed. The 529 withdrawal will count as the student's income in the year of distribution when applying for financial aid. For that reason, it may be wise to use grandparent 529 plans for the final year or two of college. For all of you grandparents out there, this is a good way of helping to contribute to your grandchildren's college education.

The IRS allows you to withdraw up to \$10,000 a year tax free to pay for private school tuition. The problem is that many states are not allowing that, so in New York for example, you would have to pay tax on the full distribution. If that is the case, it probably is not worth doing because the distributions for college are tax free for federal, state, and local taxes when used for tuition and other permitted expenses.

## COLLEGE CREDITS AND 529 PLAN DISTRIBUTIONS

For college tuition, we will need proof of the tuition paid. It would be helpful to get an annual summary of your account from the Bursar's office.

We have been getting a lot of queries from the government asking for proof of college expenses for purposes of proving the credits taken or use of 529 funds. You are permitted to withdraw funds from 529 plans for tuition, room and board, and books and materials. You cannot count travel to and from school. You also can only distribute money from 529 plans for expenses paid the same year as the distribution. Timing counts! If you take too much out of the 529, and you can't account for it, you could end up paying tax on the earnings, plus a 10% penalty, so please be careful.

Remember that if you took money out from a 529 to cover expenses in 2022, and any of it was refunded due to dorms closing or classes being cancelled, you usually have 60 days to redeposit the funds into the 529 to avoid taxes. If you still have excess funds that you withdrew out of the account in 2022, please see if you can prepay tuition or housing for next year before year end.

Speaking of college and finances, we thought that this would be a good time to mention the dreaded FAFSA (Free Application for Federal Student Aid) form that is required when applying for financial aid. We are happy to help fill out this form, but we do bill for our assistance. It is best to fill out all biographical information yourself to save paying us for entering information that you can easily complete. We can help with as much or as little of the form as you like.



## CONVERTING A TRADITIONAL IRA TO A ROTH IRA

There is no income limitation for those wanting to convert their traditional IRAs to Roth IRAs. You would have to include the amount converted in income, but for some people it could result in little or no tax. If you had a low-income year and you still have high deductions for mortgage interest, real estate taxes, charities, medical, etc., the income from the Roth conversion could be completely offset by your deductions. Once you convert the traditional IRA to a Roth, all subsequent earnings on that account are tax free as long as it remains in the account at least five years and until you are over 59½ years old. Please call with any questions regarding this.



# RETIREMENT PLANS

**Minimum Required IRA Distributions** – In 2022, you must withdraw an RMD if you are age 72 or over in 2022 or have an inherited IRA or retirement plan.

If you used some of your RMD to contribute to charity, please provide those amounts to us since they are not shown on the form that we receive.

**2021 Cares Act Early Retirement Plan Distributions** – For those of who took an advantage of the 2021 option to take an early distribution of up to \$100,000 from your retirement account, 2023 is the year that you need to pay tax on the final third of your distribution. You can avoid paying the tax on all or part of the taxable distribution if you choose to redeposit all or part of the money that you withdrew by the due date of your tax return. Under the Cares Act, when you withdrew this amount, most of you agreed to pay the tax over three years, so you would owe tax on a third of the money for 2020, a third for 2021, and another third for 2022. You also have up to three years to redeposit the funds into a retirement plan instead of 60 days. If you do redeposit some or all the funds after paying taxes on a portion of it, you will have to amend the tax returns where the taxes were paid to get that money refunded.

If you gave birth to or adopted a child, each spouse is permitted to withdraw up to \$5,000 each from their retirement accounts penalty free either up to 12 months before or 12 months after the date of birth or the date of adoption. You will still owe tax on the distribution.



## RETIREMENT PLAN CONTRIBUTIONS

There is no longer an age limit on contributions to a traditional IRA. In the past you could not contribute to an IRA if you were over 70 ½ years old. That is no longer true. There is no age limit. You must have earned income to contribute to an IRA or any retirement plan.

**IRA** - In 2022 the contribution limit for both the traditional and the Roth IRA is \$6,000 for most people. For those individuals that are at least age 50 in 2022, you can contribute up to \$7,000 to your IRA account. In 2023 the limits will increase to \$6,500 for those under 50, and \$7,500 for those who are 50 and over. If you are an active participant in a retirement plan, you cannot deduct a full contribution to a traditional IRA unless your income is below a certain threshold. For single taxpayers that threshold is \$68,000, and for married taxpayers filing jointly that threshold is \$109,000. You can always contribute to a traditional IRA even if you are an active participant in a retirement plan and your income exceeds these limits, you just cannot deduct those contributions. If you are not eligible to deduct your IRA contribution, then you may want to contribute to the Roth IRA. The Roth IRA is non-deductible, but the earnings are all tax-free if the money stays in a Roth until age 59½. You can make a \$6,000 (\$7,000 if over age 50) contribution to the Roth if your AGI is less than \$129,000 for unmarried taxpayers, and \$204,000 for married filing jointly. If your income is too high to contribute to the Roth IRA, and you make a non-deductible IRA contribution, you must let us know so that we can file the appropriate form.

**401(k)** – What many people don't realize is that there are two types of 401(k) plans – traditional and Roth. The traditional 401(k), which is a tax deferred investment, allows you to contribute the money pre-tax. When you take distributions in the future, the total distribution will be taxable. With a Roth 401(k), your contributions are not deductible, but the earnings all grow tax free if you keep the money in the account for at least five years and until age 59½. The great thing about the Roth 401(k), unlike the traditional IRA, is that there are no income limits. So, if your company offers a Roth 401(k) option, anyone can participate. Basically, you give up the current tax savings (which is only a deferral anyway) and you gain tax free growth instead of just tax deferred growth. The younger you are, the more sense this makes. We are always happy to discuss this with you if you need further clarification. For 2022 you can contribute \$20,500, plus an additional \$6,500 catch-up if you are over age 50 and over. For 2023 the limit will be increased to \$22,500 with a \$7,500 catch-up contribution.

# NEW YORK STATE LIMITED LIABILITY COMPANIES (LLC)

If you have an LLC in New York State, you must make sure to pay your filing fees for 2022 on time. The fees are based on gross income from 2021. These fees are due on March 15th. No extension is available for this form. Call our office as soon as the form arrives so that we can help you prepare to electronically file on time. If we prepare the form it must be e-filed and paid for by auto withdrawal.

## AUDITS AND NOTICES

Please notify us as soon as you get any notice from the government because they are always time sensitive. A delayed response can cause unnecessary problems and should be avoided. We are always here to help you with any notices or audits. If you get a letter, don't panic, just call us. Just because the government sends you a bill, it does not mean they are correct. Sometimes it is just a misunderstanding about how something is reported. The sooner we can respond, the sooner we can fix any erroneous assessments. It is extremely important that you keep good records with supporting documentation. Do not throw out bank statements or credit card bills for at least three years from the due date of the tax returns filed, and please keep copies of invoices for all items deducted. Credit card receipts alone are not sufficient evidence.

There have been major delays getting resolution from the IRS once we respond to notices. The IRS is terribly behind due to staff shortages and reallocation of resources to the pandemic response. The backlog is not something we can control, so please understand if it takes longer to resolve issues.

For those of you filing New York returns, NY is now auditing a larger percentage of tax returns. They are also pre-auditing the returns before issuing refunds for the last several years. They often send the letter presented as a fait accompli. They say something to the effect of "we have adjusted your refund, if you would like to send us proof of your deductions, you may, otherwise just take the lower amount." We ask that you please send us any notices that you get from the government as soon as you get them. We want to act on any notices promptly because if we miss deadlines, it is much harder to fix any issues.

## ENERGY TAX CREDITS

From electric vehicles to solar panels, "going green" continues to provide tax incentives. The Inflation Reduction Act (IRA) of 2022 included new and newly expanded tax credits for solar panels, electric vehicles, and energy-efficient home improvements. The rules are complex, and some elements of the law are not in effect until 2023, so careful research and planning now can be beneficial. The IRA extended the solar credit for 10 years. It also added credits for people who purchased energy efficient water heaters, heat pumps, and HVAC systems.

It also extended credits for electric vehicles. It removed the cap on 200,000 vehicles that existed so the cars manufactured by companies like Tesla, GM and Toyota will now qualify for the EV credit again. There are limits on price and income for the credit, so you will need to check your income, and the price of the vehicle to know if you qualify. The income cap for individuals to get the credit is \$150,000 and for married filing jointly filers it is \$300,000.

The Inflation Reduction Act also revived the credit for EV charging stations and equipment, so please let us know if you installed one.





# TAXPAYERS WHO LIVE IN ONE STATE AND WORK IN ANOTHER

The states are now really requiring that if you travel out of your working state for business, you will need to allocate those days to your home state. Therefore, if you work in one state, live in another, and travel for business, we will need the following information - your days worked out of your state of employment, not including days worked at home. We will also need to know how many sick, personal, and vacation days you took in 2022.

## FOREIGN ASSETS AND INVESTMENTS

The US has a worldwide tax system. This means that no matter where income is earned, it should be reported on your US tax return. In addition to reporting all income, there is also a great deal of compliance reporting for foreign assets. When you have foreign investments, you must report them on your US tax return, even if no income is earned. There are excise taxes if you pay for foreign whole life insurance. If you own foreign mutual funds, there is something called PFIC reporting. If you own shares in a foreign corporation, there is something called GILTI reporting. Forms 5471 and 8865 must be prepared if you own over a certain percentage of a foreign partnership or corporation. There is also a Form 3520, or 3520A, for foreign gifts, inheritance, or trusts.

We mention these forms and requirements as just a fraction of your potential reporting obligations. We want you to understand that owning foreign assets complicates your US tax filing. The world is getting smaller, and this is much more common than it used to be. Thanks to recent tax law changes, it is also much more complex than it used to be.

Clearly, there is no way of letting you know all your filing obligations in this letter. This is just to alert you to please inform us of any foreign investments, inheritance, gifts, income, or any other foreign transactions. There can be significant penalties for not meeting your foreign reporting requirements. If in doubt, please ask.



## PAYROLL AND BOOKKEEPING SERVICES

For those of you who are not aware, we offer payroll services for business and household employees. We process payroll through a platform supported by ADP. We partner with them in order to offer direct deposit for employees, automatic withdrawal of payroll taxes, electronic filing of W-2 forms, and easy access to forms for employers and their employees. We also want to use this opportunity to remind you that if you have a household employee, such as a cleaning person or a caregiver, who earns more than \$1,000 a quarter (or \$2,400 for the year), you are required to put them on payroll. This does not apply if you are paying a company such as an incorporated cleaning service or agency. If you do have household employees and would like to have us help with your payroll needs, please contact [kathryn@sjtax.com](mailto:kathryn@sjtax.com).

We also offer bookkeeping services. If you are interested, please contact our office manager Cathleen Kempton at [cathleen@sjtax.com](mailto:cathleen@sjtax.com).

## SAFESEND

We are transitioning from our former portal, SmartVault as I mentioned above. SafeSend is going to be a gamechanger. You can upload your information one of two ways. You can either use an upload link, or you can fill out a client organizer, and upload documents directly on the organizer. SafeSend is also where we will send you your signature documents and where you will sign your returns digitally. Another enhancement it offers is that if you pay estimated taxes, it will automatically send you a reminder each quarter when your estimated taxes are due. We are very excited to roll out this new software. We hope you like it.

Please do not email us any documents. Emailed documents can be hacked by someone who knows what they are doing. They can also be infected with viruses or worms that could put our whole system at risk. For these reasons, we ask that you please not email us documents. Please use one of our secure portals or one of your own. Our IT company will be disabling our ability to open file attachments on an email for security purposes.





# TAX RETURN COPIES

If you need copies of prior year tax returns, you will have access to those in SafeSend. We will always have the last three years returns loaded in your drawer. If you need to access them, and don't remember how, please check our website for instructions ([www.sjtax.com](http://www.sjtax.com)) or reach out to [sjtax@sjtax.com](mailto:sjtax@sjtax.com) for help.

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# OVERDUE INVOICES

For any balances over 30 days past due, we will be adding interest of 1% per month on the unpaid balance to our invoice. Therefore, if you have any outstanding invoices with our office, this would be a good time to catch up.

If you had a bad year, please do not neglect filing your tax return this year. Even if you know that you are going to owe money that you will not be able to pay, it is better to file your tax return in a timely manner. The penalties for not filing your return are much more onerous than the penalties for not paying your taxes. The statute of limitations does not begin to run until you file your tax return which can actually be an important point for anyone forced into bankruptcy. There are also certain elections that need to be made on a timely filed return. We can always request an installment agreement from the government to pay your taxes. There will still be penalties and interest imposed, but the penalty rate for the installment agreement is half of the normal penalty rate. Ignoring taxes does not make them go away. We are always here to help you work through any hardships.

If there is anything that you have read about that you have questions on, please feel free to reach out to us.

We wish you a happy and healthy holiday season, and we look forward to connecting with you in the New Year. We are very grateful for all of you, and your continued support of our business.

We hope that 2023 will get us even closer to normal.

Sincerely,

The Staff of SJ Associates NYC, LLC