

BATSON
ACCOUNTING & TAX, P.A.

TAX NEWSLETTER

The latest tax news and updates for the upcoming filing season

WHAT'S NEW, 2023?

Maybe Some Comfort in Continuity

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Tax Brackets & Rates

In what might have been a year of big tax changes, 2022 ended up with largely a continuation of the changes of the Tax Cuts and Jobs Act of 2017 as modified for COVID and by the Inflation Reduction Act passed late in 2022. Some years it's great to know the foundations haven't shifted much even if there are always tweaks to learn and get a grip on. Maybe the devil, but the devil we know.

None of the fears of increases to capital gain tax rates, significant increases in rates for ordinary incomes or changes to estate tax exclusions materialized. Standard deduction rules remain in place, no changes to passive income rules or alternative minimum taxes or most of the major structure to which we've become accustomed.

But as always, there are those "tweaks" and lapses and revisions that we need to keep an eye on. The largest lapse is a reduction in the child tax credit which will affect many families with children, and there are renewed incentives for Electric Vehicles and solar energy.

Herein, we will briefly address some of the important current matters and will also touch on topics we receive many questions about. We can't cover everything here, but hope you'll find our notes enlightening and helpful. We'll surely welcome your questions.

Meanwhile, thank you once again for your loyalty to us over the years. We're still old school asking for paper documents but we're also happy to take your emailed scanned or pdf documents. We'll work with you in the way that works best for you!

FILING DATES



	Standard	Ext
Personal (1040)	4/18/23	10/16/23
Partnership (1065)	3/15/23	9/15/23
Trust (1041)	4/18/23	9/30/23
C-Corp (1120)	4/18/23	10/16/23
S-Corp (1120S)	3/15/23	9/15/23
Foreign Bnk Acct	4/18/23	10/16/23

Phone: 864/235-6824

Fax: 864/ 232-5873

Email: contact@batsontax.net

www.batsontax.net

Our Staff

We're staffed better than ever to serve you during tax season! Here's the lineup:

- **Lisa Harben** – Front Desk/ Administrative
- **Angela Gravley** – Office Manager/Staff Accountant/Payroll/Taxes
- **Tyson Byrd** – Staff Tax Analyst/Preparer
- **Ray Harris** – CPA/Tax Manager
- **Stephanie Wactor** – Adjunct Tax Analyst/Relic of the Past
- **Paul Batson** – Principal/Long Term Holdover

For appointments and phone consults, Lisa Harben will make arrangements or will have another staff member to help. 235-6824.

Meetings, Appointments & Protocols

In the current environment, we are promoting digital/paper transfer of documents and phone/Zoom consultations instead of face-to-face meetings on site. However, we are attempting to be open to service at all levels dependent on the needs and the situations.

While we greatly value face-to-face meetings, much of our work can be handled through document transfers, phone calls, and ZOOM meetings.

- If you are willing to deliver your data and source documents, we can begin your work more quickly and follow up by phone and email;
- If you prefer to have a face-to-face meeting, we will make every effort to make that possible. Times and availability are limited;
- We are delighted to arrange phone consultations and Zoom meetings at your request to the extent our scheduling allows;
- For face-to-face appointments and discussions, we are far more available between April 18th and October 16th than earlier. Please see our note about Extensions.

Consider Extending Your Filing

Filing season begins electronically with IRS in January this year. The traditional filing due date is April 18th. Our window of time for processing returns is drastically shortened this year but everyone is allowed to file an extension of time to file until October 16th, 2023. More than ever, we encourage many to consider allowing us to file an extension for your returns, particularly if your situation is complex and if your documents are delayed.

The key rule to remember is this.....everyone is entitled to an extension for FILING returns, but if you owe, you are **required to pay your balance by April 18th, 2023** to avoid penalty. If we file an extension for you, you are responsible for paying whatever is due on April 18th.

What We'll Need For Your Filing...

- Please provide your source documents and organizer with any updated personal information. You don't have to fill out all the organizer but it's helpful;
- Please sign the engagement letter (we cannot do the returns without this);
- Please let us know if you would like a PDF copy when we complete the returns (\$15 charge).

As We Process Your Returns...

- We will call or email to seek additional information as necessary;
- We will call or email to let you know of alternatives and final results;
- We will prepare your package for return to you with your source documents and prepare your filings for efile.

Please allow 2 weeks for processing returns

To Finalize & E-file...

- Please pickup your tax package and sign the EF Authorization form, if applicable. Otherwise, paper filings will have been prepared for you;
- Payment is due at the time of pickup (unless prior arrangements have been made);
- We will electronically file your returns as applicable.

Auto Expenses & Standard Mileage Rates

IR-2022-124, June 9, 2022



Purpose	Rates	Rates
	Jan. 1 - June 30, 2022	July 1 - Dec. 31, 2022
Business	58.5	62.5
Medical / Moving	18	22
Charitable	14	14

Electric Vehicle Credits

This is an area that is complex and IRS is still developing the rules and applications. There will surely be credits associated with some of these whether new or used, but there are many details that have to be met such as where the parts were made, must have final assembly in the US and must be made by a qualified manufacturer and more. IRS has issued a fact sheet <https://www.irs.gov/pub/taxpros/fs-2022-42.pdf> that is somewhat helpful. However, the dealers themselves will a starting point for knowing whether the cars individually meet all the qualifications. Once that's determined, we can help you claim the credit.

Child Tax Credit Reduced- Many Will Receive Smaller Refunds

In 2021, qualifying taxpayers were allowed a child tax credit of up to \$3,600 per child. For 2022, Congress didn't renew this COVID-associated support and the credit reverts to \$2,000 per child. As an example, for a qualifying family of 3 children, the tax credit would have been \$10,800 in 2021 but will be \$6,000 for 2022. That's a huge difference for families who qualified so tax refunds may not be as large for 2022 filings that depended on child tax credits.

Qualifying taxpayers are up to \$200,000 MAGI for single taxpayers, \$400,000 for Married Filing Jointly for 2022.

Additionally, there is still a \$500 credit for qualifying dependents such as parents of the taxpayer or adult children who receive majority financial support from the taxpayer.

Dependent Care Credit

Different than the child care credit, the dependent care credit is still applicable. It's based on eligible expenses incurred for child care or certain other expenses. Expenses up to \$3,000 for one child and up to \$6,000 for the second and other children are used to determine the credit. It is non-refundable and reduces from 35% of expenses to 20% at AGI of \$43,000. This dependent care credit applies both to children and to adults for whom a tax exemption might otherwise apply, such as an invalid parent.

Section 529 Plans- Great for Education



These College Savings Accounts are considered tax-advantaged accounts. Savers can invest in the 529 plan, and the gains from the investments are free of capital gains, so long as the funds are used to pay for qualified expenses which now include up to \$10,000 of private elementary and secondary school tuition. Also, many states including SC offer tax deductions for contributions to their 529 plans, including when parents or grandparents fund 529 accounts. It's important to note though that you won't get a Federal deduction or credit for funding a 529 plan. But you do get a SC deduction even if you add funds one week and withdraw them for education the next week.

Household Employees

More and more young taxpayers employ Nannies in their homes to allow both spouses to work. If you pay cash wages of \$2,600 or more for 2023 to any one household employee, you must give that person a W-2, and you must withhold 6.2% of social security and 1.45% of Medicare taxes (for a total of 7.65%) from all cash wages you pay to that employee, unless you prefer to pay the employee's share from your own funds. You must also pay your share of social security and Medicare taxes, which is also 7.65% of cash wages. At year's end you'll need to file a Schedule H (Form 1040), Household Employment Taxes to remit these taxes.

Secure 2.0- Retirement Account Changes

There have been a number of changes made to retirement account rules too numerous and complex to list here. One of the most important changes is to the first year distribution requirement.

Effective in 2023, the age for required minimum distribution from retirement accounts has been increased to age 73. So if you're age 72 or less entering 2023, you're not required to take your first distribution from IRA or 401k accounts until you reach age 73. This is helpful for those who want to avoid retirement distributions as long as possible. Additionally, the law increases the RMD age to 75 in the year 2033. If you've already begun receiving the RMD, there's no change; you'll continue to take the RMD as before.

Other changes were made to RMD requirements for Roth 401k plans which, in 2024, will not be subject to the RMD rules. Other changes made for inherited IRAs and spousal distributions and ABLE accounts are all part of the minutiae of the Secure 2.0 Act. Because of the complexities of the rules for retirement accounts, we increasingly recommend that clients avail themselves of the specialized retirement resources of their financial advisory firms in addition to our inputs.

Qualified Charitable Distributions (QCD)

For folks over 70 ½ who are accustomed to making charitable contributions but don't itemize deductions, the QCD is a great way to continue making those contributions while receiving a tax benefit. While taking the standard deduction, you can have amounts up to \$100,000 sent directly from your IRA account to charitable organizations. The amount paid will not be taxable to you and will serve qualify toward the RMD amount. It's a good strategy for some.

Example: Married taxpayer is 72, likes to donate to the church and has an RMD requirement of \$20,000 per year. TP has only \$10,000 in deductions to itemize and can take the standard deduction of \$28,700. If TP writes a check for \$15,000 to the church, the tax liability is not changed since the itemized deduction would then be \$10,000 plus \$15,000 to the church, less than the \$28,700 standard deduction. However, if TP does a QCD through retirement plans, he/she will be taxed on only \$5,000 of the RMD (\$20k - \$15 QCD), and will still receive the standard deduction. Plus, the RMD for the next year is slightly reduced.

South Carolina Exemptions & Special Benefits

Beginning for tax year 2022, all military retirement pay is exempt from SC income taxes, no matter the taxpayer's age. SC is now one of two dozen states that do not tax military retirement.

Additionally in SC, social security income is not taxable. Anyone receiving retirement income may exclude \$3,000 up to age 65. After reaching age 65, \$15,000 of income is excluded from tax (\$30,000 per couple 65 and over.)

And 44% of capital gain income is excluded from income tax in SC!

Gifts & Gift Taxes

We increasingly get questions about this subject. Any person may grant a gift of \$17,000 (effective 2023) to any other person without need to file a gift tax return.

Example: *a husband and wife can each gift \$17,000 a child and spouse. So a child and spouse can receive \$68,000 in 2023 gifts from 2 parents without requirement for a gift tax filing. But gifts in excess of these amounts are required to be filed on gift tax returns. The recipient is usually never taxed on the gift regardless of amount.*

A gift tax return doesn't create a tax liability for most people, either the giver or the receiver. It's a filing that erodes the personal estate tax exclusion of the donor (currently \$12,920,000). But it is still a required filing if the annual limits are exceeded.

There are certain exclusions that aren't widely known. Amounts paid directly to an educational institution on behalf of a donee are not subject to the gift tax rules. Nor are payments made directly to a provider of medical care for the donee.

Feel free to ask us questions on this. We're prepared to file the gift tax returns for you, if applicable.

Sale of Personal Residence Rules



One of the most beneficial tax rules is the exclusion of profit from taxation in the sale of a personal residence. If you lived in your home any 2 years out of 5 years prior to sale, each spouse is allowed a tax free gain of up to \$250,000. **Example:** *a married couple buys a home in 2014, lives there until 2022 and sells. Cost of the home is \$200,000, sale of the home is \$500,000. The gain was \$300,000. It won't be taxable as each spouse can deduct \$150,000 of exclusion.*

There are, of course, other rules regarding rental and ownership and cost basis and time of use. We're glad to answer the questions and help to report.

New Crypto Question on all Forms 1040

The government recently announced plans to regulate crypto markets. Any regulation angers crypto purists, who argue that among other things it stifles innovation. However, some say regulation may be good for crypto in the long run, ensuring better market stability, wider adoption and protections from scams for consumers. To enhance their knowledge base, the IRS changed the question appearing on new draft of the 2022 version of the 1040 to: "At any time during 2022, did you: (a) receive (as a reward, award, or compensation); or (b) sell, exchange, gift, or otherwise dispose of a digital asset (or a financial interest in a digital asset)?" While the IRS had previously provided clarity by announcing they will treat crypto as property, it is evident that their attitude and approach to these transactions is still evolving.

There's A New Form In Town:

Form 7203 Shareholder Basis



A fundamental rule is that an investor in a business may not deduct an amount in excess of the invested funds. For S corporations, that's not obvious to IRS so they've developed a new form to track it.

Form 7203 will now be required for S corporation owners in several transactions to ensure that losses deducted don't exceed the cost basis of ownership. This has usually been tracked in the background previously but IRS now wants to see the calculations. We'll have to develop the calculations for you and will prepare the necessary form and detail. It may require some digging of info from you, but it's a new requirement and it may significantly add to the work to be done.

1099-K Issues Modified / Delayed

Form 1099-K is designed to report credit card, debit card, prepaid card transactions received by individuals or the self-employed. The basic idea is to help IRS track under-reporting of income.

The previous threshold for reporting was \$20,000 and 200 or more transactions. For 2022, it was lowered to \$600 no matter how few transactions. Meaning sales paid to an individual exceeding \$600 are reported regardless of the reason. So if a couch was sold for \$800 by credit card payment, the sale might be reportable on Form 1099-K. And IRS might inquire about the sale even though it might have been personal property with a cost basis much higher.

Much confusion has followed this and IRS announced in December, 2022, that this will be "a transition year" with regulations/procedures yet to follow in 2023. The message for us is that if you sell stuff for profit, the gain should be reported on your tax returns. If you receive income for services rendered, it should be reported on your returns. Form 1099-K will eventually be perfected or replaced, but in a state of confusion as of now as it cannot differentiate personal versus business transactions.

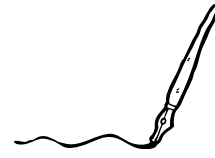
Identity Theft & Fraudulent Returns

Every year, hundreds of thousands of returns, maybe millions, are fraudulently filed. The key for the thief is access to a social security number and full name. Obviously, losing a wallet or purse is often a contributing cause, but bulk data breaches and the increasing use of technology to hack accounts usually leads to no trace of the why or how.

In some cases, the IRS computers are able to sniff out a mismatch of data. For example, if an e-file is done using an address that doesn't match data files or has other suspicious characteristics, IRS may hold up the refund and send a letter to the recorded address associated with the SSN. Each year we see instances of this and we're given a chance to stave off the filing. IRS will notify a suspected victim by letter, not by phone or email (those are themselves scams.)

To protect the victim, IRS will issue a PIN letter to the taxpayer for use in filing the next year's tax return. Do save this letter if you receive one. There are several steps to take if you're hacked in this manner and a good resource is the [irs.gov](https://www.irs.gov) website Taxpayer Guide to Identity Theft. And we will help you, also.

A NOTE FROM PAUL



OK, I know the question some of you are wondering. When is Paul going to hang it up? The answer is maybe 2023 but I'm still going strong through this season. As I've always committed to you, when the time comes, we'll make a transition that'll provide extraordinary service and a seamless transition. So when that opportunity arises, maybe 2023 or 2024, I'll keep you updated and informed.



Meanwhile, it's a great pleasure to continue to serve you. Our staff, Ray Harris, Angela Gravley, Tyson Byrd, Lisa Harben and Payton Warren remain in place to serve you at any time. We're a team ready to help whenever needed. Over the years we've attempted to find a balance between excessive growth versus personal service, and we'll always opt for the latter.



It's amazing & gratifying to think this is my 36th season with some of you. There are many of you in the 30 year service range and I cannot tell you how much I appreciate your loyalty and referrals over the years.

And it's awesome now to work with so many new clients who've joined us in recent years, allowing us to share experience and knowledge. It's terrific to see the success and achievements of so many and we're delighted to help in planning and execution to reduce the tax burdens.



We remain committed to helping all of you navigate the tax system as efficiently and effectively as possible. And I'm deeply grateful for the opportunity to serve you!

Paul Batson

DISCLOSURE OF INFORMATION

Due to liability and confidentiality issues, we are unable to send tax returns to third parties directly. We will, however, be happy to send a PDF copy of your return to you for this purpose. We'll continue to assist you and will help with the paperwork. A fee applies.