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Dear Client:

The following is a discussion of the rules applicable to the filing of 2022 individual income taxes and 2023 at this time.

TAX RATES - For 2022 there are seven income tax brackets ranging between 10% and 37% for ordinary income. The 37% tax bracket is imposed on taxable income over threshold amounts as follows:

- $647,850 for married taxpayers filing jointly and surviving spouses
- $323,925 for married taxpayers filing separately
- $539,900 for heads of households
- $539,900 for single taxpayers
- $13,450 for estates and trusts

For 2023, there are still seven brackets and the 37% tax bracket is imposed on taxable income over the following thresholds:

- $693,750 for married taxpayers filing jointly and surviving spouses
- $346,875 for married taxpayers filing separately
- $578,100 for heads of households
- $578,125 for single taxpayers
- $14,450 for estates and trusts

These seven tax brackets apply, absent new legislation, to all years through December 31, 2025.

Besides the reduction in rates and expansion of the tax brackets, perhaps the biggest change to deductions was the elimination of the personal exemption effective 2018. This was offset, in part, by the increase in the standard deduction. For 2022, the standard deduction is $12,950 for single taxpayers and $25,900 for married couples filing jointly. For 2023, the standard deduction is projected to be $13,850 for single taxpayers and $27,700 for married filing jointly.

LONG TERM CAPITAL GAINS AND QUALIFYING DIVIDENDS TAX RATE – The favorable rate of 0% for taxpayers in the 10% and 15% brackets remains unchanged from 2017. In the Tax Cuts and Jobs Act (TCJA), these rates apply at different thresholds for 2022 and 2023 as follows:

- The 0% tax rate applies to adjusted net capital gains up to $83,350 and $89,250 for joint filers and surviving spouses, $55,800 and $59,750 for heads of household, $41,675 and $44,625 for single filers and married taxpayers filing separately and $2,800 and $3,000 for estates and trusts;
- The 15% tax rate applies to adjusted net capital gains over the amount subject to the 0% rate, and up to $517,200 and $553,850 for joint filers and surviving spouses, $488,500 and $523,050 for heads of household, $459,750 and $492,300 for single filers, $258,600 and $276,900 for married taxpayers filing separately and $13,700 and $14,650 for estates and trusts; and
- The 20% tax rate applies to adjusted net capital gains over $517,200 and $553,850 for joint filers and surviving spouses, over $488,500 and $523,050 for heads of household, over $459,750 and $492,300 for single filers, over $258,600 and $276,900 for married taxpayers filing separately and over $13,700 and $14,650 for estates and trusts.

Remaining unchanged from prior years is the 25% rate for unrecaptured Code Sec. 1250 gain, the 28% rate for collectibles and the gain on qualified small business stock equal to its partial exclusion.

Qualified dividends received from domestic corporations and qualified foreign corporations continue to be taxed at the same rates that apply to capital gains. Certain dividends do not qualify for the reduced rates, including dividends paid by credit unions, mutual insurance companies and farmers' cooperatives.

NET INVESTMENT INCOME TAX (NIIT) – An additional Medicare surtax of 3.8% is imposed on the lesser of net investment income (NII) or modified adjusted gross income (MAGI) above a specified threshold. However, the Medicare surtax is not imposed on income derived from a trade or business, nor from the sale of property used in a trade or business.

NII includes the following investment income reduced by certain investment-related expenses, such as investment interest expense, investment brokerage fees, royalty related expenses, and state and local taxes allocable to items included in net investment income:

- Gross income from interest, dividends, annuities, royalties, and rents, provided this income is not derived in the ordinary course of an active trade or business
- Gross income from a trade or business that is a passive activity

- Gross income from a trade or business of trading in financial instruments or commodities
- Gain from the disposition of property, other than property held in an active trade or business

Individuals are subject to the 3.8% NIIT if their MAGI exceeds the following thresholds (which are not adjusted for inflation):

- $250,000 for married taxpayers filing jointly or a qualifying widower with a dependent child
- $125,000 for married taxpayers filing separately
- $200,000 for single and head of household taxpayers

ADDITIONAL HIGHER INCOME MEDICARE TAX - Higher income (HI) individuals continue to be subject to an additional 0.9% HI (Medicare) tax, not to be confused with the 3.8% Medicare surtax on NIIT. The additional Medicare tax means that the portion of wages received in connection with employment in excess of $200,000 ($250,000 for married couples filing jointly and $125,000 for married couples filing separately) is subject to a 2.35% Medicare tax rate (normal 1.45% plus additional .9%). The additional Medicare tax also applies to self-employed individuals.

ALTERNATIVE MINIMUM TAX (AMT) – The TCJA temporarily increased the alternative minimum tax (AMT) exemption amounts for 2022 and 2023 as follows:

- $118,100 for married taxpayers filing jointly and surviving spouses for 2022 and $126,500 for 2023
- $75,900 for unmarried taxpayers and heads of household, other than surviving spouses, for 2022 and $81,300 for 2023
- $59,050 for married taxpayers filing separately for 2022 and $63,250 for 2023
- $26,500 for estates and trusts for 2022 and $28,400 for 2023

Exemptions for the AMT are phased out as taxpayers reach high levels of alternative minimum taxable income (AMTI). Generally, the exemption amounts are phased out by an amount equal to 25% of the amount by which an individual's AMTI exceeds a threshold level. The threshold amounts for calculating the exemption phase-out are adjusted for inflation as follows:

- $1,079,800 in 2022 and $1,156,300 in 2023 for married taxpayers filing jointly and surviving spouses
- $539,900 in 2022 and $578,150 in 2023 for unmarried taxpayers and heads of household, other than surviving spouses
- $539,900 in 2022 and $578,150 in 2023 for married taxpayers filing separately
- $88,300 in 2022 and $94,600 in 2023 for estates and trusts

For 2022 and 2023, the AMT rates are 26% and 28% on the excess of AMTI over the applicable exemption amount. You should not ignore the possibility of being subject to the AMT as it can negate certain year-end tax strategies; however, tax planning strategies can be used to reduce its impact. As a general rule, taxpayers subject to AMT should accelerate income into AMT years and postpone deductions into non-AMT years.

STOCK LOSSES – Taxpayers should continually review their investments for return and portfolio balance. They should monitor their investments to take steps necessary to time the recognition of capital gains and losses to minimize their net capital gains tax and maximize the benefit of capital losses. Remember for tax purposes it is not how much your investments have gone up or down in value but rather how much gain or loss you have **realized** when an investment is sold since its original purchase date. The maximum capital loss deduction available to offset ordinary income is $3,000 ($1,500 for married taxpayers filing separately) with the additional capital losses being carried forward until used. Taxpayers also need to take "wash sale" rules into consideration when generating losses. The wash sale rule defers use of a tax loss realized upon a sale of stock if the investor repurchases it within 30 days before or after the sale. Worthless stock also generates an immediate capital loss; however, the rules for "worthless" stocks are very strict. Stocks and securities must be totally worthless for a taxpayer to take a loss deduction; a mere decrease in value, no matter how great, will not trigger a loss deduction.

DIGITAL ASSETS / CRYPTOCURRENCY – Increased attention is being placed on digital assets (two examples are cryptocurrency and non-fungible tokens (NFTs)) due to their volatility and the publicized collapse of crypto giant FTX. Holders of cryptocurrency claim it is a form of currency and fluctuations in value are not taxable. IRS law defines it as property, like any other investment, where fluctuations in value are subject to gains and losses when realized. When cryptocurrency is "spent", exchanged for goods and services, the IRS expects the calculation of gains/losses from the original basis to be recognized. The IRS is escalating attention to this area as it suspects widespread under reporting of cryptocurrency transactions. Like 2021, the 2022 Form 1040 will prominently display a required question for Digital Assets right under the taxpayers' name and address: "At any time during 2022, did you: (a) receive (as a reward, award or payment for property or services); or (b) sell, exchange, gift or otherwise dispose of a digital asset (or a financial interest in a digital asset)?" Per IRS instructions, the following actions or transactions in 2022 alone, generally do not require a "Yes" answer: 1) holding a digital asset in a wallet or account, 2) transferring a digital asset from one wallet or account you control to another one you control, or 3) purchasing digital assets using US currency including through the use of electronic platforms such as PayPal and Venmo.

ROTH IRA CONVERSIONS - Modified gross income limitations applicable to Roth IRA conversions were repealed and 2010 was the first year in which a taxpayer could convert all or part of their traditional retirement accounts to a Roth account, regardless of income, age or filing status. A conversion is a taxable transfer and is taxable in the year of conversion. Under prior law, a taxpayer could recharacterize IRA contributions from one

type of IRA to another. TCJA provides that a recharacterization cannot be used to unwind a Roth conversion. A taxpayer may still make a contribution to a traditional IRA and convert the Traditional IRA to a Roth IRA but the change is that the Roth conversion can then not be unwound using recharacterization.

IRA & ROTH IRA CONTRIBUTIONS – The maximum contribution is $6,000 for 2022 and $6,500 for 2023 provided you have at least $6,000 and $6,500, respectively of wage, salary or net self-employment earnings. An additional "catch-up" contribution of $1,000 is allowed for taxpayers over 50 years of age by the end of the tax year for 2022 and 2023. Contributions to a traditional or Roth IRA may continue after age 70 1/2 (by the end of the tax year). Remember that IRA and Roth IRA contributions for the 2022 tax year can be made up to April 18, 2023.

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401K AND 403B CONTRIBUTIONS - The annual limit on employee elective deferrals to these plans for 2022 is $20,500 and $22,500 for 2023. The maximum "catch-up" contribution to a 401K and 403B plan for taxpayers over 50 years of age by the end of the tax year is an additional $6,500 for 2022 and $7,500 for 2023.

RETIREMENT PLANS - The SECURE Act primarily intended to encourage savings for retirement, though not entirely favorable to taxpayers. Most provisions took effect January 1, 2020. Here are some of the most significant provisions:

- Elimination of the age 70½ limit for making traditional IRA contributions, so that anyone can contribute as long as they're working, matching the existing rules for 401(k) plans and Roth IRAs,
- Increase of the age at which taxpayers must begin to take required minimum distributions (RMDs) from 70½ to 72,
- An exemption from the 10% tax penalty on early retirement account withdrawals of up to $5,000 within one year of the birth of a child or an adoption becoming final,
- Elimination of the "stretch" RMD provisions that have permitted beneficiaries of inherited retirement accounts to spread the distributions over their life expectancies,
- Expansion of access to open multiple employer plans (MEPs), which give smaller, unrelated businesses the opportunity to team up to provide defined contribution plans at a lower cost, due to economies of scale, with looser fiduciary duties.
- Elimination of employers' potential liability when it comes to selecting appropriate annuity plans, and
- A new requirement that employers allow participation in their retirement plans by part-time employees who've worked at least 1,000 hours in one year (about 20 hours per week) or three consecutive years of at least 500 hours.

In addition to the above, the SECURE 2.0 Act of 2022 was part of the 2023 Omnibus Bill recently signed into law at the end of 2022. Among the key retirement provisions in the Act are:

- The age requirement to begin taking RMDs will increase from age 72 to age 73 starting on January 1, 2023 (with respect to individuals who attain age 72 after December 31, 2022 and age 73 before January 1, 2033) and then to age 75 on January 1, 2033 (with respect to individuals who attain age 74 after December 31, 2032). In addition, the penalty for not taking an RMD is reduced from the current 50%, to 25%, and in some cases to 10% if the failure is corrected timely. In addition, beginning in 2024, the pre-death RMD distribution requirement for Roth 401(k) accounts will be eliminated. Also in 2024, surviving spouses can elect to be treated as the deceased employee for purposes of RMDs.
- In 2023, participants age 50 and older can contribute an extra $7,500 per year annually into their 401k account. This amount increases to $10,000 per year in 2025 for participants age 60 – 63. Additionally, catch up provisions will be indexed for inflation commencing in 2026.
- Defined contribution plan sponsors will be able to provide participants with the option of receiving matching and non-elective contributions on a Roth basis.
- Plan participants generally will be able to withdraw up to $1,000 per year from their retirement savings account for emergency purposes (unforeseeable or immediate financial needs relating to personal or family emergency expenses) without having to pay the 10% tax penalty for early withdrawal if they are under the age of 59 1/2. The provision is effective for distributions made after December 31, 2023.
- Employers who start new retirement plans will be required to automatically enroll employees in the plan at a rate of at least 3% but not more than 10%, beginning in 2025.
- Beginning in 2024, beneficiaries of 529 college savings accounts are permitted to rollover unused dollars (up to $35,000) over their lifetime from their 529 account to a Roth IRA tax and penalty free account under certain conditions including being subject to Roth IRA annual limits and the 529 account being open for more than 15 years.

CHILD TAX CREDIT (CTC) – The amount of the credit through 2025 is $2,000 per qualifying child up to age 17. The credit is subject to phase-out at modified adjusted gross income (MAGI) levels of $400,000 for joint filers and $200,000 for all other returns.

CHILD DEPENDENT CARE (CDC) CREDIT – Beginning 2022, this credit is nonrefundable and is subject to limit based on the taxpayer's tax liability. For 2022 and 2023, the maximum amount of qualifying expenses to which the credit may be applied is $3,000 for individuals with one qualifying child or dependent or $6,000 for individuals with two or more qualifying children or dependents. Generally, the qualifying child has to be under age 13. The credit percentage is 35% up to adjusted gross income (AGI) of $15,000 subject to the maximum credit amounts. The percentage decreases by one

percentage point for each $2,000 (or fraction thereof) of additional AGI until it's reduced to 20% (which applies at AGI over $43,000).

EDUCATION INCENTIVES – The following are education incentives which exist under current law:

American Opportunity Tax Credit: The American Opportunity Tax Credit (AOTC) was made permanent by the 2015 PATH Act and was not changed by TCJA. This $2,500 maximum credit per eligible student is subject to the higher income phase-out ranges of $80,000 to $90,000 for single filers ($160,000 to $180,000 for joint filers) and contains a 40% refundable credit component. The eligibility extension to the first four years of post-secondary education contains an inclusion for text books and course materials as eligible expenses. The Lifetime Learning Credit was also retained.

Student Loan Interest Deduction: If your modified adjusted gross income during 2022 is less than $85,000 ($175,000 for married filing jointly), a deduction is allowed for interest paid on a student loan used for higher education up to a maximum of $2,500. This figure will continue to be adjusted each year for inflation.

Coverdell Education Savings Accounts (ESAs): Total contributions for the beneficiary of this account (under age 18) cannot exceed $2,000 in any year no matter how many accounts have been established. Contributions to a Coverdell ESA are not deductible but amounts deposited in the account grow tax free until distributed.

Employer-Provided Education Assistance: Employees are allowed to exclude from gross income and wages up to $5,250 in annual educational assistance provided under an employer's nondiscriminatory "educational assistance plan."

Scholarship Programs: An amount received as a qualified scholarship and used for qualified tuition and related expenses is excludable from income. The exclusion does not apply to any portion of the amount received which represents payment for teaching, research, or other services by the student as a required condition for receiving the qualified scholarship. However, scholarship recipients with obligatory service requirements under the National Health Service Corps Scholarship Program and the Armed Forces Scholarship Program can exclude from income qualified tuition and related expenses as well as amounts that represent payment for services.

Section 529 Accounts: TCJA expanded potential usage of 529 plans to include elementary and secondary school tuition for public, private and religious schools up to $10,000 per year per student. Previously, only Coverdell ESA funds could be used for primary and secondary expenses. New York opted not to follow TCJA; therefore, for New York purposes, withdrawals for kindergarten through 12th grade school tuition are **NOT** qualified withdrawals under the New York 529 college savings account program.

MEDICAL EXPENSE THRESHOLD - For 2022, a deduction is allowed for expenses paid during the tax year for the medical care of the taxpayer, the taxpayer's spouse and the taxpayer's dependents to the extent the expenses exceed 7.5% of adjusted gross income.

According to the IRS, COVID-19 testing kits are an eligible medical expense along with personal protective equipment (PPE), such as masks, hand sanitizer and sanitizing wipes, if they're used primarily for preventing the spread of COVID-19. As eligible medical expenses, they can be paid for with money in a health flexible spending arrangement (FSA), health savings account (HSA), health reimbursement arrangement (HRA) or Archer medical savings account (Archer MSA).

CHARITABLE GIVING –

- Congress has long used the tax laws to encourage charitable giving and for many individuals, charitable giving is also a part of their year-end tax strategy. The 2015 PATH Act made permanent the popular charitable giving incentive with tax-free IRA distributions to public charities by individuals age 70 1/2 and older up to a maximum of $100,000 per qualified taxpayer per year. Individuals taking this option cannot claim a deduction for the charitable gift as the distribution is not claimed as income.

- Congress tightened the rules for substantiation requirements for charitable contributions effective August 17, 2006. The IRS will not allow charitable deductions, *regardless of the amount*, without proper documentation. Contributions of $250 or more must be substantiated by a written acknowledgement from the donee organization; the acknowledgement must include the date of the donation, amount of cash or a description of property donated and a description and good faith estimate of the value of any goods or services received in exchange for the contribution. If the donor does not receive a written acknowledgment from a charitable organization, it is the donor's responsibility to obtain it in order to claim the charitable contribution. Contributions under $250 must be substantiated by cancelled checks, bank records or receipts from the donee organization. If it would be impracticable to obtain a receipt, the donor must maintain reliable written records.

- Just like the rules for cash gifts, the rules for substantiating deductions for donations of clothing and household items (i.e., furniture, furnishings, electronics, appliances) were tightened after August 17, 2006 and will only be allowed if the property is in "good used condition or better". Donors must have a written acknowledgement from the charity documenting the donation date, description of property donated, a description and good faith estimate of the value of any goods or services received in exchange for the contribution and a valuation/qualified appraisal of the property donated, if applicable. A deduction for the noncash goods will be allowed, without regard to condition, *only* if a qualified appraisal is attached to the return for each single item or group of similar items over $500. We *recommend* that pictures be taken of any noncash goods that are donated as it will be helpful in supporting the deduction.

Taxpayers donating vehicles (i.e., car, truck, boat, and aircraft) to a charity valued over $500 must obtain from the charity and attach to the tax return Form 1098-C and/or a written acknowledgment of the contribution. The donation amount is usually limited to the gross proceeds from the sale of the vehicle by the charity.

Gifting of appreciated securities for making charitable contributions continues to be a significant alternative instead of using cash. In this manner, the appreciated value will not be taxed, low-cost basis stock is removed from your portfolio/estate and the fair-market value of the security will be used as the charitable contribution.

Individual taxpayers are allowed a deduction for cash contributions to public charities up to 60% of adjusted gross income (AGI) and 30% of AGI for noncash contributions. Donations to donor advised funds and private foundations are not eligible for the increased limit.

For 2022, there is no non-itemized deduction for charitable contributions. Only taxpayers who itemize will be allowed to deduct charitable contributions.

IRS has been aggressively reviewing and challenging charitable donations in response to these new substantiation requirements. It is expected that this trend will continue. The burden of proof will be on the taxpayer so it is imperative that good records and supporting documentation is maintained.

EDUCATOR EXPENSES – A grade K-12 teacher, instructor, counselor, principal or aide in a school for at least 900 hours during a school year is eligible to claim an above-the-line deduction up to $300 for qualified expenses paid out-of-pocket during the year. Qualified expenses include educator expenses, professional development courses, books, supplies, classroom materials and COVID related expenses. The deduction will stay the same at $300 for 2023.

BONUS DEPRECIATION & SECTION 179 BUSINESS EXPENSING ELECTIONS –
Bonus Depreciation: Pursuant to TCJA for qualified purchases placed into service after September 27, 2017, 100% of the purchase price can be expensed. This 100% expensing will continue until 2022. There is a scheduled phase-down to 80% starting in 2023 and ending at 20% in 2026, after which the provision is set to expire. Unlike regular depreciation, where half-year and mid-quarter conventions may apply, a taxpayer is entitled to the full 100% bonus depreciation based on when the asset is purchased. Therefore, year-end placed in service strategies provide immediate "cash discount" for qualifying purchases, even when considering finance costs. Bonus depreciation under old law is available only for new property (i.e., property whose original use begins with the taxpayer) depreciable under MACRS that (a) has a recovery period of 20 years or less, (b) is MACRS water utility property, (c) is computer software depreciable over three years, or (d) is qualified leasehold improvement property. An enticing provision under the new law whereby qualified property includes property that has been used (i.e., the original use does not have to originate with the purchaser). A taxpayer may elect out of bonus

depreciation with respect to any class of property placed in service during the tax year. Although this election may be factored into a year-end strategy, a final decision on making it is not required until the tax return is filed. Bonus depreciation is not a preference item for alternative minimum tax.

Code Sec. 179 Expensing: The PATH Act's provisions made the enhanced Section 179 expense deduction permanent for taxpayers (other than estates, trusts or certain non-corporate lessors) that elect to treat the cost of qualifying property (generally defined as depreciable tangible property that is purchased for use in an active trade or business) as an expense rather than a capital expenditure. Thus, the current Section 179-dollar cap for 2022 and 2023 is $1,080,000 and $1,160,000, respectively, with an overall investment limitation of $2,700,000 and $2,890,000, respectively.

BUSINESS MEALS – The provision allowing 100% deduction of certain business meals under the Consolidated Appropriations Act of 2020 will expire in 2023. The generous deduction rule provided taxpayers a temporary respite for food and beverage expenses provided by a restaurant, and incurred or paid through December 31, 2022. For 2023, the original limitation of 50% deductibility on all food and beverage expenses will be restored.

AUTOMOBILE MILEAGE RATE - Many taxpayers use the standard mileage rates to help simplify their recordkeeping. Using the business standard mileage rate takes the place of deducting the applicable business percentage of the actual costs of your vehicle such as maintenance, repairs, gas, insurance, license and registration fees. If you choose to use the actual expense method to calculate your business vehicle deduction, you must maintain very careful records by keeping track of the actual costs during the year to maintain and run your vehicle. One of the most important tools is a mileage log book that details date, miles driven, location and purpose for the vehicle during the calendar year. Our office can help you compare the benefits of using the business standard mileage rate or the actual expense method.

Business standard mileage rate: The business standard mileage rate for 2022 is 58.50 cents per mile from 1/1/22 to 6/30/22 and 62.50 cents per mile from 7/1/22 to 12/31/22. The mileage rate is 65.5 cents per mile for 2023.

Medical/Moving standard mileage rate: The medical/moving standard mileage rate for 2022 is 18.00 cents per mile from 1/1/22 to 6/30/22 and 22.00 per mile from 7/1/22 to 12/31/22. The 2023 per mile rate is 22.00 cents.

Charitable standard mileage rate: Taxpayers who itemize deductions may be able to claim a deduction for miles driven in service of a charitable organization. The standard mileage rate for charitable miles as determined by IRS for 2022 and 2023 is 14.00 cents per mile.

COLLEGE SAVINGS PROGRAMS/PLANS – Connecticut allows a deduction from federal adjusted gross income for contributions made into a CT higher education trust

fund (CHET). New York allows a deduction from federal adjusted gross income for contributions into a New York 529 college savings plan. The maximum deduction in each state is $5,000 for a single taxpayer and $10,000 for married filing joint. However, Connecticut allows contributions in excess of these limits to be carried forward for five years while New York does not allow any carry forward.

RESIDENTIAL ENERGY CREDIT – Through December 31, 2022, the energy efficient home improvement credit is limited to 10% of the cost up to the $500 maximum lifetime credit for qualified property such as energy-efficient insulation, storm doors, windows, furnaces, heaters, boilers and central air conditioning at your principal residence.

As amended by the Inflation Reduction Act (IRA), the energy efficient home improvement credit is increased for years after 2022, with an annual credit of generally up to $1,200. Beginning January 1, 2023, the amount of the tax credit is equal to 30% of the sum of amounts paid by the taxpayer for certain qualified expenditures, including 1) qualified energy efficiency improvements installed during the year, 2) residential energy property expenditures during the year and 3) home energy audits during the year. There are limits on the allowable annual credit and the amount of the credit for certain types of qualified expenditures. The credit is allowed for qualifying property placed in service on or after January 1, 2023 and before January 1, 2033. The IRA of 2022 added reforms as follows:

- The energy efficient home improvement credit provides for an increased and broadened nonrefundable tax credit limited to 30%, not exceeding $1,200 in any year, of the sum of expenditures for installation of qualified efficiency improvements (energy efficient windows, skylights, exterior doors and energy audits).
- Annual limitations apply to exterior windows and skylights ($600), exterior door ($250, individually and $500 in the aggregate), and home energy audits ($150).
- A separate nonrefundable tax credit of 30% of expenditures limited to no more than $2,000 is allowed for heat pump and heat pump water heaters and biomass stoves and boilers meeting specified requirements purchased and installed between January 1, 2023 and December 31, 2032.
- Energy-efficient home improvement credits allowed for a taxpayer’s expenditure reduces the taxpayer’s basis in the property by the amount of the credit allowed.

The residential clean energy property credit is a 30% credit for expenditures for qualified solar electric property, qualified solar water heating property, qualified fuel cell property, battery storage technology, qualified small wind energy property and qualified geothermal heat pump property. The credit for these property expenditures applies to those placed in service in 2022 through 2032. Beginning January 1, 2033, the credit phases down to 26%, 22% in 2034 and no credit after that.

HEALTH CARE REFORM - The Affordable Care Act (ACA) brought a sea of change to our traditional image of health insurance. Taxpayers and employers will continue to weigh the benefits and costs of obtaining coverage in a public marketplace or a private insurance exchange for themselves and their employees. Small businesses may be eligible for a

tax credit to help pay for health insurance. Individuals may qualify for a premium assistance tax credit, which is refundable and payable in advance, to offset the cost of coverage. Those who obtained insurance through the Marketplace will receive Form 1095-A, *Health Insurance Marketplace Statement*, which will explain their coverage and detail any premium tax credit they received in advance.

Individuals with flexible spending accounts (FSAs) and similar arrangements should take a look at their annual spending habits and project how they will use these tax favored funds in the future. The maximum salary reduction contribution to a FSA is $2,850 for 2022 and $3,050 for 2023. Adjusted for inflation, the annual limitation on deductible contributions to health savings accounts (HSAs) for an individual with self-only coverage under a high deductible health plan (HDHP) is $3,650 for 2022 and $3,850 for 2023; $7,300 for 2022 and $7,750 in 2023 for family coverage. The HSA catch up contributions for age 55 or older is $1,000 for 2022 and 2023 for both single and family coverage.

GIFT TAXES – Slow and steady estate planning can yield dramatic results - take advantage of the annual gift giving limits to reduce your income and estate tax liabilities. For 2022, the annual exclusion is $16,000 ($32,000 per person for couple). For 2023, the annual exclusion is $17,000 ($34,000 for couple.) Remember that if you gift stock, the recipient of the gift takes over the donor's cost basis and holding period for the security; therefore, the donor needs to provide the recipient with this information. Current Connecticut legislation has the estate and gift tax thresholds at $9,100,000 for 2022 and $12,920,000 for 2023 (in 2023 this is equal to the federal estate and gift tax exclusion amount). Direct payments of educational expenses to a qualified institution for family members, or other beneficiaries, is not treated as a gift for tax purposes and does not count against the annual exclusion amount or the lifetime exemption. Please note that absent any new legislation on a federal level, these higher exemptions are scheduled to sunset on December 31, 2025 and return to a $5 million exemption, indexed upward for inflation as established under 2012 legislation. At this time, it is not known what Connecticut will do when federal levels sunset.

ESTATE TAX REFORM – While TCJA retains the estate tax rate at 40% for 2022 and 2023, the estate tax exemption moved up to $12,060,000 and $12,920,000 respectively. TCJA did not repeal the death tax as had been a goal and also did not make the above changes permanent as they expire after 2025. The portability election remains as part of the tax law. Portability allows the second spouse to have the benefit of the deceased spouse's unused portion of the exemption even if the second spouse dies when a lower exemption is in effect, possibly after 2025. No changes were made in TCJA with respect to step up in basis despite the increase in the exemption.

AUTOMATIC REFUND REDUCTIONS - With the number of information sharing acts signed by federal and state taxing authorities as well as other organizations, please be aware that refunds could be automatically reduced for the following matters: delinquent federal taxes, delinquent state taxes, back spousal and/or child support and delinquent non-tax federal debts such as student loans. If the Department of Treasury's Financial

Management System (FMS), which disburses IRS refunds, offsets the refund for a delinquent amount (correctly or incorrectly), they will send a letter to the taxpayer explaining the reduction and giving the taxpayer the right to challenge the offset.

MAILING & RECORDKEEPING OF TAX PAYMENTS AND TAX RETURNS - When mailing tax returns or payments to federal and state taxing authorities, we advise the use of registered or certified mail to prove timely filing. We also recommend that you make copies of the checks before mailing for your records. The IRS has stated that other than direct proof of actual delivery, a mail receipt would be the only evidence of the timely delivery of tax documents. It is also a good practice to make sure that you have good copies of the front and the back of the check images (where available) once your payments clear the bank in case you have to present this information at a later date. The IRS, as well as many state taxing authorities, are providing options to make direct payments electronically via direct links and established account log ins; therefore, you may want to consider making estimated tax payments and paying notices via these methods in the future. Please keep in mind that as electronic systems of filing continue to be required, manpower at the federal and state taxing authorities will continue to decline causing longer delays in resolution of matters and placing the burden of proof on the taxpayer. With the current pandemic situation and staff shortages, these delays have only increased.

INCREASED REPORTING PROVISIONS ARE IN EFFECT AIMED AT COMPLIANCE AND REVENUE GENERATION - Banks and other processors of merchant payment cards are required to report a merchant's annual gross payment card receipts to the IRS along with the merchant's EIN #. The law also requires reporting of third-party network transactions such as ones used by online retailers. Expanded information reporting will continue to assist the IRS in increasing the compliance among merchants. The IRS plans to compare the merchant's overall volume of payment card sales in relation to expenses claimed and cash transactions reported, estimating to raise more than $9.5 billion over 10 years as a result of the increased reporting and monitoring.

We have also seen an increased emphasis by IRS and state taxing authorities on enforcement of tax provisions. Additionally, several pieces of legislation provided increased resources for enforcement activities by the IRS, which may affect more than the wealthy. The Treasury Department has stated that increased enforcement through additional staff and information reporting systems could raise revenue.

As of 2013, new rules were fully implemented that required brokers to file information returns that not only provided the IRS and customers with details on the sales proceeds from each trade executed during the year, but also the customer's adjusted basis in the security and whether any realized gain/loss is short or long term. These information reporting requirements effect business customers as well. Securities subject to the reporting requirements include stocks, bonds, debentures, commodities, derivatives and other financial instruments designated by Treasury. Brokers notified customers in 2011

regarding elections to make in their accounts concerning the methods to be used for reporting cost basis. This provision was estimated to raise $6.7 billion over 10 years.

In response to broker reporting changes, the IRS introduced Form 8949 *Sales and other Dispositions of Capital Assets* in 2011. Form 8949 is used to list all capital gain and loss transactions previously reported on Schedule D of Form 1040. The subtotals from Form 8949 are then carried over to Schedule D where realized gain or loss is calculated in the aggregate. Accurate reporting and matching of data from taxpayer returns to that reported by the brokers directly to the IRS is the key compliance focus and purpose of this form.

Foreign Compliance Activities: Foreign Account Tax Compliance Act (FATCA) dominated international news beginning in 2014 and continues today. Along with FACTA, the U.S. has been expanding its tax treaties and information agreements with foreign jurisdictions to encourage greater transparency and authorities are getting tighter with compliance efforts. FinCen Report 114, Report of Foreign Bank and Financial Accounts (FBAR), reporting for tax year 2022 is due by April 18, 2023 with an automatic 6-month extension available until October 16, 2023.

Identity Theft: Tax fraud and identity theft have become a growing problem over the years. Further initiatives continue to be taken by the industry to combat identity theft issues for taxpayers throughout the country. IRS has joint efforts with various state taxing authorities and tax preparation software companies to create a security plan to safeguard taxpayer information. **Taxpayers who have experienced identity theft issues have been issued IP PIN numbers which are required to be input by tax preparers when submitting your return for electronic filing.** These numbers are unique by tax year and it is the responsibility of the taxpayer to supply the tax preparer with this information. **Tax preparers are also required to input the current driver's license state identification number, issue date and expiration date for ALL taxpayers prior to e-filing without exception.**

OTHER FEDERAL NEWS -

The Internal Revenue Service issued IR-2022-226 on December 23, 2022 announcing a delay in reporting thresholds for third-party settlement organizations (TPSO) set to take effect for the upcoming tax filing season. As a result of this delay, TPSOs will not be required to report tax year 2022 transactions on a Form 1099-K to the IRS or the payee for the lower, $600 threshold enacted as part of the American Rescue Plan of 2021.

Under the law, beginning January 1, 2023, a TPSO would have been required to report third-party network transactions paid in 2022 with any participating payee that exceeded a minimum threshold of $600 in aggregate payments, regardless of the number of transactions. TPSO's would report these transactions to individual payees on Form 1099-K.

2022 is a transition year and delays the reporting of the transactions in excess of $600 to transactions that occur after calendar year 2022. The IRS notes that the existing 1099-K reporting threshold of $20,000 in payments from over 200 transactions will remain in effect.

CONNECTICUT DEPARTMENT OF REVENUE NEWS –

Connecticut Income Tax Subtraction for Pensions and Annuity Income: Beginning with the 2022 tax year, taxpayers with federal AGIs below specified thresholds may deduct 100% of their qualifying pension and annuity income when calculating their CT AGI. This modification applies to the extent such income is properly included in the taxpayer's federal AGI for the taxable year. The deduction applies to taxpayers with federal AGIs below 1) $75,000 for single filers, married filing separately and heads of households and 2) $100,000 for married people filing jointly.

Teachers' Retirement System (TRS) Income: Taxpayers may deduct 50% of their TRS income. Those who qualify for the general pension and annuity exemption described above may take either exemption.

Limitation of Property Tax Credit: Residents may qualify for a credit up to $300 for property taxes paid on a primary residence or automobile in Connecticut subject to Connecticut adjusted gross income limits. For tax years 2017 - 2021, the property tax credit was only $200 and limited to residents who were age of 65 or older or claimed at least one dependent on their federal income tax return.

Expansion of Credit for Taxes Paid to Qualifying Jurisdictions: Corresponding amendments to Connecticut General Statutes serve to authorize claims for refund due to changes made by another jurisdiction impacting a taxpayer's Connecticut income tax liability on or before the ninetieth day after the final determination of said change, even if an original return was not filed. These provisions are effective for taxable years commencing on and after January 1, 2022.

Certain IRA Distributions: Beginning with the 2023 tax year, taxpayers may deduct a portion of their distributions from individual retirement accounts (IRAs), other than Roth IRAs. The deduction is 25% for 2023, 50% for 2024, 75% for 2025 and 100% beginning in 2026. The qualifying income thresholds for this exemption are the same as those for the pension and annuity exemption described above.

NEW YORK DEPARTMENT OF TAXATION NEWS –

On December 28, 2018 New York State Department of Taxation issued a Technical Memorandum stating that they decoupled from certain personal income tax IRS changes implemented by TCJA for tax years 2018 and thereafter. These items include certain itemized deductions, alimony or separate maintenance payments, qualified moving

expenses reimbursement and moving expenses, Empire State child tax credit and New York 529 college savings account withdrawals.

New York State's current maximum tax rate for individuals increased from 8.82% to 9.65% for 2021 – 2027 calendar years. Two new upper limit tax bracket rates were also created regardless of filing status at 10.3% and 10.9%. These increases leave New York State with one of the highest marginal state tax rates in the country.

New York tax authorities continue to focus on auditing 2020 and 2021income tax returns filed by non-residents who work for New York employers, and have started issuing desk audit notices in an effort to claw back missed tax revenue.

NEXUS

As many states continue to face substantial budgetary restraints for 2022 and beyond, they are aggressively pursuing revenue collections from residents and nonresidents. States have continued to expand the definition of nexus – creating activity leading to many taxpayers being required to file state taxes in more states. With telecommuting becoming the norm, especially due to the COVID pandemic, many individuals find themselves working in states other than their pre-COVID primary office locations. Taxpayers need to consider whether their income will be taxed in the state in which they are working as well as the state in which their primary office is located. Certain states impose a "convenience" rule that sources income to the employer's office location if an employee is working remotely out of convenience and not out of necessity for the employer. With telecommuting comes the flexibility to work from any location, not just the state where the individual resides potentially creating a change of residence on a domicile and/or statutory basis.

Remote work is likely here to stay for the foreseeable future. As a "hot topic", it is expected that regulations and guidance will continue to develop and change as both taxpayers and preparers will be looking for additional guidance as released. The tax impact of remote work and the potential for increased scrutiny and auditing exists. Analyzing all facts and maintaining detailed records and documentation is critical. As of the release of this letter, here are some notable announcements from Connecticut and New York:

Connecticut:

On March 4, 2021, Governor Lamont signed H.B. No.6516, which provided that any Connecticut resident who paid tax to a state that uses a convenience of the employer rule will be allowed a credit against their Connecticut income tax for the paid to the other state on income earned while working remotely from Connecticut. Connecticut explained that these credits only apply to the 2020 tax. For tax year 2021, Connecticut did not issue a change in position on this matter. Continued guidance is expected on this subject so it is unclear if there might possibly be double taxation of state taxes in the future. Like New

York, Connecticut has been sending out notices challenging credits for taxes paid to other states as well as modifications.

Absence further legislation as of this date, it appears Connecticut will adhere to the convenience rule for tax year 2022. Residents that work remotely from home for their employer in New York will continue to pay tax to New York on their wages and qualify for the credit for taxes paid to another state on their Connecticut tax return. Tax experts seem to think it will take several smaller states to form a coalition and take on New York in the courts.

New York:

New York has remained in defense of its “convenience of the employer rule” during the COVID-19 pandemic. The Department of Taxation and Finance posted an FAQ with the position that the convenience rule continues to apply regardless of any imposed COVID restrictions. An employee whose primary work location is in New York is subject to New York taxes unless a bona fide office has been established in the employee’s remote location (specific requirements for this as specified by New York have to be fulfilled to qualify). In 2021 and 2022, New York sent out notices and audited tax returns of nonresident filers that showed a substantial change of income source to New York; we expect that this behavior will continue. New York has also increased audit focus on resident taxpayers who are taking credit for taxes paid to other states.

For 2022, New York continues to take the same stance outlined in the previous paragraph. Time will tell if other states will be able to take on New York in court and turn things around.

As 2023 begins we can once again say that much uncertainty exists as our economic, regulatory and political sectors remain in great flux. We are also still facing supply chain disruptions, work force shortages and challenges from the coronavirus pandemic. It appears that we are likely heading into a recession, thanks to inflation for the first time in a generation and climbing interest rates that are suppressing economic activity in virtually all sectors. With the midterm elections finally behind us, we can hope for collaboration across the aisle but the direction of tax legislation remains uncertain.

We appreciate the opportunity to be of service to you. We wish you and your families good health and best wishes for the New Year!

Very truly yours,

Walter J. McKeever & Company, LLC
Certified Public Accountants