

Happy *a Prosperous*
Holidays & New Year!

Thank you to all of our clients, contacts, and staff! From our family to yours — the **Partners** and **Staff** of
BORMEL, GRICE & HUYETT, P.A.

2022 Year-End Tax Planning

2022 has seen a continued return to stability from the impacts of the COVID-19 pandemic. Both businesses and individuals have almost totally returned to normal, though shifts in labor policies have led to considerable changes in the way people work and create personal balance.

The global economy, however, continues to feel the impact of the pandemic. Disruptions to supply chains, along with many other factors, led to high inflation throughout 2022. Many businesses and individuals have had to address rapid price increases in raw materials, energy, and consumables.

In response to this issue, Congress passed the Inflation Reduction Act of 2022. While it is yet to be determined whether the legislation will lower inflation, many economists agree that the provisions of the bill will not make inflation worse, unlike earlier stimulus bills passed in response to the pandemic. However, what the Inflation Reduction Act of 2022 does provide are many of the green energy proposals that were promised by President Joe Biden during his 2020 campaign and included in his Build Back Better Plan in 2021.

The Act provides investment in clean energy, promotes reductions in carbon emissions, and extends popular Affordable Care Act premium reductions. The Act is primarily paid for through the implementation of a 15 percent corporate minimum tax on large businesses and budget increases for the Internal Revenue Service to close the “tax gap.”

Despite the burden of the pandemic over the last two years, the tax world seems to have stabilized since the passage of the Tax Cuts and Jobs Act (TCJA) in 2017. This has made year-end tax planning more predictable. Nonetheless, there are still steps that can be taken in response to recent developments, in addition to the proven methods that can be taken on an annual basis.

MINIMIZING INDIVIDUAL TAXES

Income Taxes

The key to any year-end planning strategy is to minimize income taxes. This is done by either reducing the amount of income received or

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BGH Receives National Recognition

Ranked 18th in **Best Firms To Work For** and 3rd in **Best Firms For Women** 2022 nationwide by **Accounting Today**

The annual list of “Best Accounting Firms to Work for” was created by **Accounting Today** Magazine and Best Companies Group and co-sponsored by ADP. The survey and award program were designed to identify, recognize, and honor the best places of employment in the accounting industry, benefiting the nation’s economy, its workforce and businesses. The Best Accounting Firms to Work For list comprises 100 CPA firms nationwide.

(l-r) Romarr Mayne (ADP), Anna Huyett and Larry Bormel (BGH), Tiffany Wormley (ADP), Barry Fields and Ray Plummer (BGH)

2022 Year-End Tax Planning *Continued*

increasing the number of deductions. In recent years, the possibility of increased rates on higher incomes due to proposed legislation, or changes in qualification for various stimulus proposals, made the decision of deferral or acceleration highly dependent upon individual circumstances. However, as the end of 2022 approaches, these factors are not as relevant anymore.

Instead, the impact of inflation makes deferral of income a likely winner for almost all individuals. In October, the IRS released the inflation-adjusted tax brackets for 2023. These brackets reflect the 8% inflation that has been hitting the U.S. economy.

Individuals may not necessarily see increases in earnings that keep up with that level of inflation, meaning that if deferral of income from 2022 into 2023 is possible, it would mean that more income would fall into a lower tax bracket.

Delaying and Reducing Gains

Similar to taxes on ordinary income, taxes on capital gains also apply at different rates depending upon the amount of taxable income.

For taxpayers whose income tends to fluctuate from year to year, it would be beneficial to examine the impact of sales of investment items. For taxpayers who think they may have lower income in 2023, it would be wise to hold off on a sale of a capital item if their income is at or near a threshold for a higher capital gains bracket. This type of consideration should not be limited to capital gain taxes, but also the net investment income (NII) tax. The 3.8% NII tax kicks in at \$200,000 of modified adjusted gross income for single filers and \$250,000 for joint filers.

Maximizing Deductions

For 2022, the inflation-adjusted standard deduction amounts are \$25,900 for joint filers, \$19,400 for heads of households, and \$12,950 for all other filers. With standard deduction amounts so high, as well as the \$10,000 limitation on the deduction of state and local taxes, it is difficult for many taxpayers to claim enough deductions to make itemizing deductions beneficial. Thus, maximizing deductions may not be appropriate for all taxpayers.

One of the best ways to maximize the number of deductions is to develop a bunching strategy. This involves accumulating charitable contributions, or even medical expenses, from two or more years into one year. For example, a taxpayer may have not made any of his or her normal charitable contributions in 2021, and then made double the normal amount in 2022 to help surpass the standard deduction amount.

Bunching of deductions can be a very effective tax strategy, but it must be potentially planned in advance to maximize the benefit, while also considering shifts in tax laws as a result of political change.

Other Year-End Strategies

Several other traditional year-end strategies may apply. These include:

Maximizing Education Credits Individuals can claim a credit for tuition paid in 2022 even if the academic period begins in 2023, as long as the period begins by the end of March.

Increasing 401(k) Contributions Adjusted gross income (AGI) can be reduced if individuals increase the amount of their 401(k) contributions. For 2023, 401(k) contribution limit increases to \$22,500 and the catch-up contribution increases to \$7,500.

IRA Contributions Individuals eligible for deductions for IRA contributions can claim deductions, and thus reduce AGI, for amounts contributed through April 18, 2023. For 2023, IRA contributions limit increases to \$6,500, but the IRA catch-up contribution limit will remain at \$1,000.

Teacher Deductions Educators can claim a deduction for up to \$300 of classroom expenses (like books, supplies, and computer equipment, as well as personal protective equipment, disinfectant, and other supplies used to prevent the spread of COVID -19) and should maximize those expenses by year-end.

YEAR-END BUSINESS STRATEGIES

Corporate AMT

The Inflation Reduction Act of 2022 renewed the corporate alternative minimum tax (AMT) which was eliminated by the TCJA, although in a slightly altered form. Effective for tax years beginning after 2022, the new corporate AMT equals 15 percent of the corporation's "adjusted financial statement income" for the tax year. A corporation's adjusted financial statement income is the amount of net income the corporation reports on its applicable financial statement. The tax only applies to corporations with average annual adjusted financial statement income in excess of \$1 billion for the three prior tax years.

Depreciation and Expensing

The TCJA provided very generous depreciation and expensing limitations. Businesses may want to take advantage of 100-percent first-year depreciation on machinery and equipment purchased during the year. Additionally, Code Sec. 179 expensing has an investment limitation of \$2,700,000 for 2022, with a dollar limitation of \$1,080,000.

These are just some of the many tax planning opportunities available. Please contact our office to discuss your upcoming 2022 tax return so that we may determine what is appropriate to help minimize your income taxes based upon your specific circumstances. ■

INFLATION REDUCTION ACT OF 2022

CLEAN ENERGY INCENTIVES

The Inflation Reduction Act of 2022 is a 10-year plan that includes changes to the cost of health care, provides additional funding for the IRS, and tax incentives for clean energy addressing climate change and energy security. This article will focus on several of the clean energy tax incentives impacting both individuals and businesses.

Residential Clean Energy Credit is a tax credit for individuals for residential energy property that produces power. The credit applies to qualified solar electric property, qualified solar water heating property, qualified fuel cell property, qualified small wind energy property, geothermal heat pump property, and battery storage property placed in service before 2035. The credit may be claimed against regular and alternative minimum tax (AMT) beginning with crediting 30 percent of the cost of eligible property placed in service in 2022 through 2032.

Energy Efficient Home Improvement Credit is a tax credit for individuals for making certain qualified home improvements and installing certain energy efficient property placed in service before 2033. Property is only eligible when used in the taxpayer's primary residence. Qualified home improvements include building envelope components such as doors, windows, skylights, and insulation while roofs are specifically excluded. Energy efficient property includes furnaces and certain fans, central air conditioners, water heaters, certain heat pumps, and biomass stoves. The tax credit covers 30 percent of costs paid or incurred during the tax year with annual limits based on the type of improvement or energy property.

For businesses, there are significant changes to the **Energy Credit** for solar energy property, solar lighting property, qualified fuel cell property, small wind energy property, geothermal property, and other qualifying types of property used to produce electricity for use by the business.

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2023 Tax Due Date Calendar

January 16

- Final installment of 2022 estimated tax by individuals and trusts due

January 31

- Last day to paper or electronically file W-2's and 1099-NEC
- Last day to receive W-2 forms and most 1099 statements from your employer, banker, broker, etc.
- Fourth quarter 2022 payroll tax returns and annual federal unemployment returns due

February 28

- Paper file Forms 1098, 1099, and W-2G
- If Forms 1098, 1099, or W-2G are filed electronically, the due date for filing with the IRS and SSA is extended to March 31, 2023

March 15

- S Corporation and Partnership income tax returns for calendar year 2022 due
- Last day for calendar year S Corporations and Partnerships to file Form 7004, an automatic six-month extension of time, for 2022 income tax returns

- Last day for business entity to elect S-corporation status beginning as of January 1, 2023 by filing Form 2553

April 18

- Individual income tax returns or Form 4868 (automatic six-month extension) plus payment of any 2022 tax liability due
- First quarter individual estimated tax payments due for 2023
- C Corporation income tax returns for calendar year 2022 due or last day for calendar year C Corporations to file Form 7004, an automatic six-month extension of time for 2022 tax returns plus payment of any 2022 tax liability due
- 2023 Maryland personal property tax returns due
- Last day for making 2022 IRA contributions
- Gift tax returns (Form 709) and payment of any gift tax due for 2022. If your income tax return is extended, the gift tax return will automatically be extended for six-months, or otherwise file Form 8892

- Calendar year fiduciary income tax returns and requests for 5½ month automatic extensions due

- First installment for corporation estimated income tax due for 2023

- FinCEN 114 is due

May 2

- First quarter 2023 payroll tax returns due

June 15

- Payment of second installment of 2023 estimated tax by individuals and trusts is due
- Second quarter of 2023 estimated tax is due by calendar-year corporations

August 1

- Due date for 2022 Annual Return/Report of Employee Benefit Plan (Form 5500)
- Second quarter 2023 payroll tax returns due

September 15

- Payment of third installment of 2023 estimated tax by individual, trusts and estates
- Payment of third installment of 2023 estimated tax by calendar-year corporations

- Last day of filing 2022 Form 1065 for Partnerships and Form 1120S for S Corporations that obtained an automatic six-month extension

September 30

- Form 1041 extended due date

October 16

- Last day for filing 2022 income tax return by calendar-year corporations that obtained an automatic six-month filing extension
- Last day for filing 2022 individual income tax returns for those who obtained an automatic six-month filing extension
- Form 5500 extended due date

October 31

- Third quarter 2023 payroll tax returns due

December 15

- Payment of last installment of 2023 estimated tax by calendar-year corporations is due

If you have any questions about these new due dates, please feel free to call our office.

Inflation Reduction Act of 2022 *Continued*

Clean Vehicle Credit replaces the Plug-in electric drive vehicle credit. There are new provisions requiring the vehicle's batteries to have more capacity, limits tax credit eligibility to taxpayer's based on both Adjusted Gross Income (AGI) of the taxpayer and the manufacturer's suggested retail price (MSRP) of the vehicle and includes requirements for the vehicle and battery components to be manufactured by a qualified manufacturer, final assembly of the vehicle must occur within North America, and other rules. The maximum credit is still \$7,500. The credit is not allowed if taxpayer's modified AGI exceeds \$300,000 for joint tax returns, \$225,000 for heads of household, or \$150,000 for single taxpayers and married filing separately.

Previously Owned Clean Vehicle Credit is a new tax credit of up to \$4,000 for the purchase of certain used clean vehicles. Similar to the Clean Vehicle Credit, the credit is not allowed if taxpayer's modified AGI exceeds limits, but the AGI limits for used vehicles are half. The credit is not allowed

if taxpayer's modified AGI exceeds \$150,000 for joint returns, \$112,500 for heads of household, or \$75,000 for single taxpayers and married filing separately. The previously owned vehicle is eligible for the credit if the model is at least two years old and meets other clean vehicle or new qualified fuel motor vehicle credit requirements.

Alternative Fuel Vehicle Refueling Property Credit is a tax credit for equipment installed in residences and businesses to recharge an electric motor or to store or dispense clean burning fuel. To be eligible for the credit, the property must be placed in service in a low income census tract or non-urban area as defined by Commerce Department. The IRS will be issuing guidance over the next few months.

For more information on clean energy tax incentives that may affect your 2022 taxes, please contact us. ■

STUDENT LOAN RELIEF 2022

Earlier in the year, it was announced that up to \$20,000 in student debt relief would be provided for Pell Grant recipients, and up to \$10,000 in student debt relief would be provided for non-Pell Grant recipients. The requirement for borrowers to be eligible for this student loan relief is that they must have made less than

\$125,000 (\$250,000 for married couples) based on adjusted gross income, either in 2020 or 2021. Borrowers have been advised to apply for student loan relief before federal student loan repayment resumes in January 2023.

To apply for Student Loan Forgiveness, borrowers are advised to fill out

the online application located on the Federal Student Aid website. Borrowers who qualified for automatic relief received an email from the Education Department.

It is important to note that any relief provided from this Student Loan Relief program will not be treated as taxable income for federal income

tax purposes. Most states will also not be treating Student Loan Relief as taxable income. ■



Larry Bormel Receives Lifetime Achievement Award from CMCC

BGH President Larry Bormel was honored with the Lifetime Achievement Award by The Central Maryland Chamber of Commerce during its 6th Annual Meeting and Hall of Fame Awards on May 9, 2022. The event recognized the companies and volunteers who partner with the chamber to be the voice of businesses, create jobs and help members thrive.

BGH Partner Barry Fields joins Central Maryland Chamber Board of Directors

Barry is off to a great start engaging Chamber members with small business seminars presenting topics like cryptocurrency (Oct. 19, 2022) and the upcoming Income Tax Update being offered on Dec. 14, 2022.

BGH 2022 Scholarship Fund Donations & Award



Congratulations to the 2022 recipients of the Bormel, Grice & Huyett Business Scholarship Award! Ayotomiwa Olagoke-Bello & Timothy Cronin of St. Vincent Pallotti High School were presented the award by Bette Anne Sanders. Our best wishes for future success to the Class of 2022!

Our firm raised funds from their Company silent auction in June 2022. With additional employee contributions, we were able to donate \$1,725.00 to Central Maryland Chamber Education Foundation's Bormel, Grice & Huyett Business Scholarship Fund.

The 2022 BGH Staff Awards were presented to the following well deserving staff members.



Thumbs Up
Sherrie Williams

Superstar
Marco Torchia

Award of Appreciation
Mary DeStefano

Congratulations! BGH Staff Promotions



BGH announces the promotion of April Miller and Ron Rendle to Principal.

Promoted to Manager (l-r) David Young, Steve Hartong, Sherrie Williams, and Matthew Bormel



Promoted to Senior Accountant Marco Torchia and Mary DeStefano

BGH Welcomes Our Newest Employee

Amanda Whitworth

Amanda graduated from the University of Maryland Baltimore County and lives in Clarksville, Maryland. Amanda enjoys the outdoors and hiking on the weekends.



Bormel, Grice & Huyett, P.A.

Founded in 1968 and celebrating 54 years of service, **Bormel, Grice & Huyett, P.A.** is one of the Baltimore Washington Corridor premier accounting firms, providing the highest quality accounting, tax, audit, financial, business and professional services to both individual and organizations. The firm provides industry expertise in a number of areas such as not-for-profits, real estate, construction, and professional service providers.