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Happy New Year!

We hope you had a blessed and prosperous 2022! This year has brought many changes to tax laws with the provisions of the Inflation and Reduction Act (IRA) and the Secure Act 2.0. The employee retention credit, which has provided significant dollars to businesses, has been a keen part of our focus for our clients in 2022 and 2023. We will keep a close eye on the changes and be proactive in implementing strategies to help maximize potential tax benefits.

As many of you know, we are expanding our payroll and accounting services. If you haven't heard of these enhanced services, please reach out, and we can provide more information.

The past several years have revealed how quickly and abruptly changes and related liabilities can expose our assets and wealth to risk. Even before the recent pandemic, Capital Accounting focused on providing our clients with what we refer to as **Asset Risk Management Planning**. We may mention these services to you, and please feel free to bring up protecting your wealth.

Gather Your Tax Documents and Receipts

Please use the attached 2022 Client Income Tax Checklist as you gather your W-2's, 1099's, mortgage statements, etc. Please provide all documents and receipts as soon as possible. Our policy is to automatically file extensions for clients who provide documentation within one month of the April deadline.

To Set Up A Tax Appointment, CALL (480) 783-8870

Call us to schedule your appointment as soon as possible! We will continue to offer in-person meetings, Zoom, and conference calls. If you prefer to avoid scheduling a formal meeting, TaxDome is a convenient client portal we now offer for all communication and secure document sharing. You can also drop off documents at our office or send them by mail.

15215 S. 48th Street, Suite 139
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Attn: Tax Department

Tax Deadlines

Wednesday, March 15th – S Corporation & Partnership Tax Forms 1120S, 1065

Tuesday, April 18th – Individual & Corporation Tax Forms 1040, 140, & 1120

Our clients are truly the best! We thank you for your continued business and referrals. Please call us with any questions you may have.

We look forward to the start of 2023 and hope the coming year provides you with wonderful opportunities and much success.

Sincerely,

Capital Accounting, PC

2022

TAX TIME

TAX TIME

TAX HIGHLIGHTS & ANALYSIS

TAX SEASON 2023

We continue to update our technology, and we are excited to announce that we have implemented a new secure, intuitive client portal that is user-friendly even to those who aren't tech-savvy. Everything is in one place! You can electronically sign documents, ask and answer questions, and upload documents without going to multiple websites from your mobile phone or computer. Tax Dome ensures secure exchange of information & safety of your personal data. TaxDome has a built-in secure messaging system where we can request information needed from you or chat in real time. If we need additional information, you will receive timely notifications and will see an easy-to-read to-do list. The client portal is mobile-friendly, so you can access it anytime, anywhere!

In an effort to make tax season run smoothly for our clients, we encourage submitting tax documents as early in the year as possible or request an extension to be filed if you prefer a later filing date. Please submit your tax information as soon as possible to avoid the stress of last-minute tax preparation and fees for expedited services. Thank you for your continued business. We look forward to another great tax season!

2022 TAX HIGHLIGHTS

There were several new tax laws and programs made available in 2022. Currently, the Inflation Reduction Act and Secure Act 2.0 has proposed additional significant items that could impact taxpayers and families.

The following is a summary of the current 2022 highlights:

INDIVIDUALS

Individual Rates

Individual rates remained at 10, 12, 22, 24, 32, 35, and 37% through 2022. The amount of income subject to the top tax rate of 37% is \$647,851 (married filing jointly), \$539,901 (single individuals).

Arizona Individual Rate

For the tax year 2022, there are two individual income tax rates, 2.55% and 2.98%. The new flat tax of 2.5% goes into effect for 2023, for returns due April 2024. Reach out with any questions regarding your A-4 withholdings form.

Child Tax and Dependent Credit

The enhanced child tax credit is \$2,000 for children 6 to 17. Now, the credit phases out, based on income. For those with children 17 or older or those who care for other relatives, a non-refundable credit of \$500 per qualifying person may be available.

Itemized Deductions

Itemized deductions, including mortgage interest, charitable contributions, and medical expenses, remain deductible, but have a couple of changes to the limits for each. Charitable contributions are deductible up to 60% of income. Medical expenses now have a threshold of 7.5% of AGI. The deduction for state and local taxes continues to be limited to \$10,000.

Solar Credit

Consumers who install qualified energy efficiency improvements (including solar water heating & solar electric systems) can receive a 30% tax credit on the total cost in 2022.

Energy Efficient Home Improvement Credit

The former nonbusiness energy property credit was a lifetime \$500 credit, and is now replaced with an annual limit of \$1,200. The annual limits for specific types of qualifying improvements are (1) \$250 for any exterior door (\$500 total for all exterior doors), (2) \$600 for exterior windows and skylights, (3) \$600 for other qualified energy property (including central air conditioners; electric panels and certain related equipment; natural gas, propane, or oil water heaters; oil furnaces; water boilers), and (4) a higher \$2,000 annual limit for heat pumps and heat pump water heaters, biomass stoves, and boilers. The Inflation Reduction Act also added a credit of up to \$150 per year for home energy audits. Roofs no longer qualify for the credit beginning 2023.

Charitable Contributions

Charitable contributions continue to be deductible but proper documentation is necessary. Proper documentation can be a canceled check or a credit card receipt, and for any donation more than \$250, a written acknowledgment from the charity is required.

Additional 0.9% Medicare Tax

A 0.9% tax is imposed on wages above \$200,000 for single taxpayers and \$250,000 of the combined wages of married taxpayers.

Net Investment Income Tax 3.8%

Applies to long-term and short-term capital gains, dividends, rental income, or income from a business in which the taxpayer is a passive participant. Income thresholds apply – (\$250,000 threshold for married filing joint).

Capital Gain and Dividend Rates

The general structure of the capital gains tax system isn't changing. However, for married filing jointly, the capital gains rate is 0% up to \$80,000 of taxable income, 15% for incomes of \$80,800 - \$501,600, and 20% for incomes above the highest threshold.

Standard Deduction and Personal Exemption

The standard deduction for 2022 is \$12,950 for single filers and \$25,900 for married filers.

Electric Vehicle Credit

The qualified plug-in electric drive motor vehicle credit may be available if you acquired a qualified electric vehicle and placed it in service this year. For 2022, the maximum amount of credit is \$7,500. The credit begins to phase out for a manufacturer's vehicles when at least 200,000 qualifying vehicles have been sold for use in the United States. For instance, Tesla and GM vehicles purchased in 2022 are not eligible for tax credits since those manufacturers have exceeded the 200,000 vehicle threshold.

The Inflation Reduction Act significantly modified the electric vehicle credit. After August 16, 2022, the credit is generally available only for qualifying electric vehicles for which final assembly occurred in North America. However, under a transition rule, if you entered a written binding contract to purchase an electric vehicle on or before August 16, 2022, but took possession of the vehicle after that date, you would not be subject to the final assembly requirement. The Inflation Reduction Act also increased the amount of this credit, effective after December 31, 2022.

BUSINESS

ERC

Employer Retention Credits (ERC) are still available! If your business experienced a 20% decline in gross income in any quarter of 2021 compared to the same quarter of 2019 or a 50% decline in gross income in any quarter of 2020 compared to the same quarter of 2019, please contact us to discuss eligibility for this credit. Please keep in mind that, unlike the PPP loans, expenses paid for with ERC funds are not deductible. **If you received ERC funds, please provide a copy of the check(s) you received.**

Research & Development Credit

The Research and Development Credit is available for Qualified Small Businesses. The credit is available for up to 20% of Qualified Research Expenses for which the tax year exceeds a base amount. Qualified Small Businesses can choose to make the Alternative Simplified Research Credit election. This election may be eligible to claim a federal tax credit for costs related to their research and development activities, up to \$250,000 per fiscal year.

Section 179 Expense – Permanently Extended

The increased expensing allowance for business assets, computer software, and qualified real property (i.e., leasehold improvement, restaurant, and retail improvement property) was permanently extended to allow property with a cost of up to \$1,050,000 to be expensed currently (with a limit of \$2,620,000 in total property placed in service before the Section 179 limit would be reduced).

Bonus Depreciation

Similar to section 179 bonus depreciation is accelerated depreciation, however it allows for up to 80% expensing for most business assets with less than a 20-year life (machinery, equipment, furniture).

Business Meal Deductions

Only for 2021 and 2022, the CARES Act allows for 100% business deduction for meals. Moving forward to 2023, the deduction goes back to 50% of total costs.

AZ State Credit for S-Corporations

Dollar for dollar for contributions to school tuition organizations (STO's). Minimum \$5,000 – No maximum limit.

Reporting of 1099's (Independent Contactors)

Forms 1099-MISC or 1099-NEC must be filed for payments of \$600 or more to individuals or partnerships. You will need to meet the January 31st filing deadline. Applicable to both recipient and agency copies, whether filing by paper or electronically.

Net Operating Loss Deduction

The 2017 Tax Act limits the amount of the NOL that a taxpayer can use to 80% of taxable income. Plus, the law also repeals the provision allowing for a 2-year carryback but does allow for an indefinite period to carry forward the NOL.

Tax Credits for Small Employers

Under current law, employers with less than 100 employees that adopt a new retirement plan may qualify for an annual tax credit for up to three years equal to the lesser of (1) 50% of the administrative cost of establishing the plan, or (2) \$5,000. Effective in 2023, SECURE Act 2.0 increases the percentage from 50% to 100% for employers with 50 or fewer employees and establishes a generous new tax credit for contributions made by small employers to a newly established retirement plan (other than a defined benefit plan). The new tax credit will be a set percentage of the amount contributed by the employer for employees up to a per-employee cap of \$1,000 (but contributions to employees with compensation in excess of \$100,000, as indexed, are not taken into account). The set percentage is 100% for the year the plan is established and the following year, 75% for the third year, 50% for the fourth year, 25% for the fifth year, and 0% thereafter. The total amount of the new tax credit would be available to employers with 50 or fewer employees but phases out for employers with 51 to 100 employees.

RETIREMENT ACCOUNTS

401k Accounts

For 2022 the allowable contribution increased to \$20,500, plus the catchup of \$6,500 for tax payers 50 and older. If you have a SIMPLE 401(k), the maximum pre-tax contribution for 2022 is \$14,000. That amount increases to \$17,000 if you are 50 or older. 2023 allowable contribution increases again to \$22,500 with \$7,500 catch-up.

Required Minimum Distributions (RMD)

The age at which individuals must begin taking RMDs from their retirement accounts is 72. The required beginning date for your first RMD is April 1 of the year following the calendar year in which you reach age 72.

Traditional IRA

The IRA contributions limits for 2022 is capped at \$6,000, with a \$1,000 catch-up contribution for taxpayers over 50. Your ability to deduct traditional IRA contributions from your taxable income is income limited, with allowed amounts phased out as your income rises. Contributions to a Traditional IRA can be made until April 18, 2023, and allocated to 2022.

IRS Office

Contacting the IRS for guidance continues to be difficult. On the bright side, your chances of facing an IRS audit are greatly reduced. However, the IRS continues to send out computer-generated notices, usually from document-matching processes. Since IRS notices generated in this way are sometimes incorrect, you should contact us as soon as you receive correspondence, and we will take care of it.

Remember, never ignore an IRS notice. It won't go away!



Tax Year 2022 Key Income Tax Figures

Individual Income Tax Rates	10%, 12%, 22%, 24%, 32%, 35%, 37%	
Additional Medicare Tax Rate	0.90%	
Net Investment Income Tax Rate	3.80%	
Standard Deductions	2022	2021
Single & Married Filing Separate	\$12,950	\$12,550
Married Filing Joint & Qualifying Widower	\$25,900	\$25,100
Head of Household	\$19,400	\$18,800
FICA Taxable Wages (Social Security)	2022	2021
	\$147,000	\$142,800
Child Tax Credit	\$2,000	\$2,000
Standard Mileage Rate	2022	2021
Business (First 6 months 58.5¢)	62.5¢	56¢
Medical and Moving (First 6 months 18¢)	22¢	16¢
Charitable	14¢	14¢
Section 179	2022	2021
Maximum Amount 179	\$1,080,000	\$1,050,000
SUV Limitation	\$27,000	\$26,200
Retirement Plans	2022	2021
IRA - Contribution Limit/Catch up if Age 50	6,000/1,000	6,000/1,000
SIMPLE IRA - Contribution Limit/Catch up if Age 50	14,000/3,000	13,500/3,000
401(k), 403(b), & 457 - Contribution Limit/Catch Up Age 50	20,500/6,500	19,500/6,500
Defined Contribution - Contribution Limit	\$61,000	\$58,000
Health Savings Accounts (HSA)	2022	2021
Individual - Contribution Limit	\$3,650	\$3,600
Family - Contribution Limit	\$7,300	\$7,200
Age 55 Catch Up	\$1,000	\$1,000