A Publication of Tax News & Tips™ Mid Year 2022

The Tax Man

If You Want to Pay Too Much in Taxes,
That's Your Business.
If you Don't, That's Our Business

Randy and Cathy Warshawsky
Enrolled to practice before the Internal Revenue Service
Income Taxes – Audits – Payroll – Bookkeeping
(408) 445-1151
www.4Taxman.com

Where's My Return?

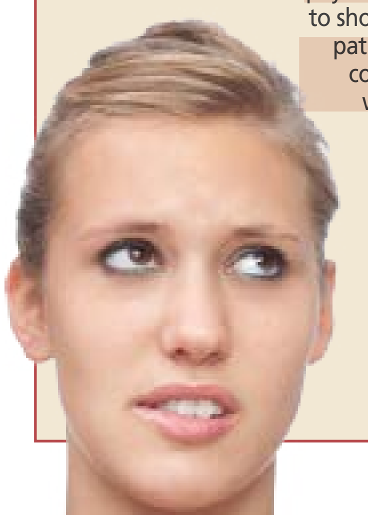
"Where's My Refund" Site No Longer Supports 2020 Return Inquiries

The 2021 Individual Income Tax filing deadline ended April 18, 2022, but many taxpayers that filed timely are still waiting on their refunds! Additionally, millions of taxpayers are also still waiting on their 2020 tax refunds for returns that were timely filed back in early 2021!

When these taxpayers check the IRS's "Where's My Refund" web tool, it says that their return is still being processed and that a refund date will be provided when available. Additionally, these taxpayers may have received an IRS 4464C Letter. The purpose of the IRS Letter 4464C is simple. It mainly informs the taxpayer of two things. First, the IRS has received the income tax return. Second, the taxpayer cannot expect to receive their tax refund anytime soon (usually 60 days) because it is still under review. Taxpayers seeking information on 2020 refunds (there are still millions of unprocessed refunds from 2020) are having no luck. The "Where's My Refund" site no longer supports those inquiries.

The delays have been caused in part by the IRS review of taxpayers incorrectly reconciling/claiming the recovery rebate of $1,400 or by reconciling/claiming the advanced child tax payments.

The bottom line is that taxpayers will need to show some patience and continue to wait for an understaffed IRS to process all of the returns that have still not been reviewed.



Third Stimulus Payment Reconciliation to IRS Letter 6475 Generates Inquiries

Some taxpayers are receiving IRS inquiries addressing their inability to correctly reconcile the payments reported to them on IRS Letter 6475 with amounts entered on their 2021 federal income tax returns.

To review, the Treasury issued requirements for the third stimulus payment which started arriving in March 2021 to the following:

The Treasury Has Issued Requirements

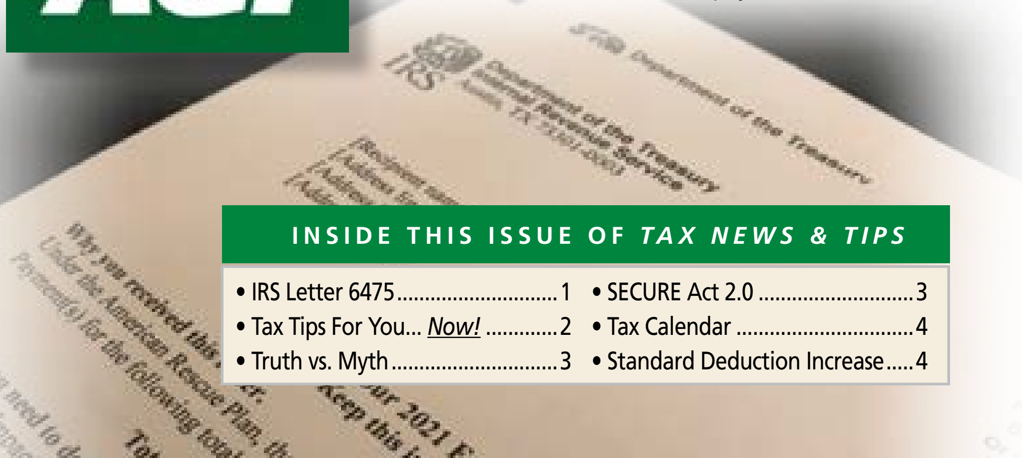
The maximum amount for the third round of stimulus checks was $1,400 for any eligible individual or $2,800 per eligible couple filing taxes jointly. Each eligible dependent — including adult dependents — also qualified for a payment of $1,400. That means a family of four would have received as much as $5,600 in total.

Under the Bill, single adults who reported $75,000 or less in adjusted gross income (AGI) on their 2019 or 2020 tax return would have received the full $1,400 payments, as would heads of household who reported $112,500 AGI or less.

Couples filing jointly who earned $150,000 or less in AGI would have received the full $2,800. The size of the payment would gradually decrease for those who earned more than those amounts, until it disappeared entirely for higher-income households. Single filers with more than $80,000 in AGI, heads of household with more than $120,000, and couples filing jointly with more than $160,000 in AGI would not receive stimulus payments in the third round.

The increase in the amount dependents could have received was one big change with the third round of stimulus payments. For the first round of payments, checks were $500 per eligible dependent younger than 17. The amount was $600 per eligible child dependent for the second round. But for the third stimulus any adult dependents were eligible to receive stimulus payments. That change was a big financial boost to families who serve as caregivers for their loved ones or who have students older than 16 in college or pursuing other educational opportunities.

All Economic Payment Incentives or Stimulus Payments have been completed…there are no more payments of this type on the horizon to be sent to taxpayers.



INSIDE THIS ISSUE OF *TAX NEWS & TIPS*

On The Horizon *(Not Yet Law)* – SECURE Act 2.0

We talked about the SECURE Act in late 2020. Those provisions went into effect in 2020 and included many reforms that make saving for retirement easier and more accessible for many more taxpayers.

Now comes SECURE Act 2.0! This proposal builds upon the basics of the original SECURE Act. In addition to expanding coverage and increasing retirement savings, the sweeping Secure Act 2.0 would also allow hardship withdrawals in cases of domestic abuse and simplifies and clarifies retirement plan rules. Although SECURE 2.0 is not law yet, overwhelming support may push this Act into law before the end of 2022. Some of the major provisions could include:

Increased Required Minimum Distribution (RMD) Age

Under current law provided by the SECURE Act, participants are generally required to begin taking RMDs from their retirement plans at age 72.

SECURE 2.0 would increase the RMD age further to 73 starting on Jan. 1, 2022; to 74 starting on Jan. 1, 2029; and 75 starting on Jan. 1, 2032.

Expanded Auto-Enrollment in Retirement Plans

The bill, if passed would require 401(k) and 403(b) plans to automatically enroll participants when they become eligible; employees may opt out of coverage. The initial automatic enrollment amount is at least 3% of the employee's wages but no more than 10%; then each year that amount is increased by 1% until it reaches 10%. All current 401(k) and 403(b) plans are grandfathered. There is an exception for businesses with 10 or fewer employees, new businesses (i.e., have been in business for less than three years), churches and governmental employees.

Indexes IRA Catch-Up Limit

Under current law, the limit on IRA contributions is increased by $1,000 (not indexed) for individuals who have attained age 50. The bill, if passed indexes such limits starting in 2023.

Higher Catch-Up Limits at age 62, 63 & 64

Under current law, employees who have turned 50 are permitted to make catch-up contributions under a retirement plan. The limit on catch-up contributions for 2021 is $6,500, except in the case of SIMPLE plans, for which the limit is $3,000. SECURE 2.0 (if passed) would increase these limits to $10,000 and $5,000 (both indexed), respectively, for individuals who have attained ages 62, 63 and 64, but not age 65.

Student Loan Payments and Employer Matching

The Secure Act 2.0 further would permit an employer to make matching contributions under a 401(k) plan, 403(b) plan or SIMPLE IRA with respect to "qualified student loan payments." The provision is intended to assist employees who may not be able to save for retirement because they are overwhelmed with student debt and missing out on available matching contributions.

Boosts Small Employer Pension Plan Startup Credit

Would make changes to the Credit by: Increasing the startup credit from 50% to 100% for employers with up to 50 employees, and except in the case of defined benefit plans, an additional credit would be provided. The amount of the new credit generally would be a percentage of the amount contributed by the employer on behalf of employees, up to a per-employee cap of $1,000. Although not yet law, SECURE 2.0 has an excellent chance of passing with overwhelming bi-partisan support.

Tax Tips For You... *Now!*

The 2022 Tax Year will be very different from 2020 & 2021. Not due to new tax legislation being passed but, because tax laws that increased tax credits or deductions passed specifically for 2020 and 2021 expired December 31, 2021. It is ***vitally important*** that every taxpayer review their own current tax situation and make necessary changes to withholding taxes or estimated tax payments to ensure that enough tax has been paid according to each taxpayer's situation. Early review and action now will eliminate surprise tax results when 2022 tax return are completed and filed in early 2023. Let's review the major changes.

Avoid Surprise Tax Results With Timely Returns

✔ ***Do You Remember This?***

The American Rescue Plan passed in March, 2021 created major changes in tax provisions that affected federal tax returns for 2020 as well as for 2021 returns. The Plan's provisions provided for putting more money into taxpayers' hands when needed most due to the devastating economic effects of the COVID-19 pandemic.

The tax changes enacted by last year's COVID-relief bill expired at the end of 2021. That means things like the Child Tax Credit, child and dependent care credit, earned income credit and other popular tax breaks are reduced or eliminated for the 2022 tax year. One of the most significant changes centers around the Child Tax Credit.

✔ ***Child Tax Credit Changes for 2022***

The credit for 2021 increased the credit from $2,000 per child to $3,000 and increased the age for eligible children (to under 18 years old) from under 17 years old. Additionally, children under age 6 were eligible for $3,600.

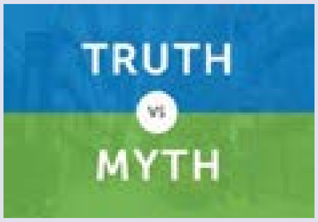
For 2022, the Child Tax Credit will return to the pre-2021 amount ($2,000 per dependent up to age 16) and there will be NO advance payments offered to families.

✔ ***Child and Dependent Care Credit***

Various changes were enacted to the child and dependent care credit, effective for 2021 only, including making it refundable. The credit was worth 50% of eligible expenses, up to a limit based on income, making the credit worth up to $4,000 for one qualifying individual and up to $8,000 for two or more. Credit reduction started at Adjusted Gross Income levels over $125,000. For households with income over $400,000, the credit would be reduced to below 20%.

The Act also increased the exclusion for employer-provided dependent care assistance to $10,500 for 2021. ***These provisions expired December 31, 2021.***

For 2022, the child and dependent care credit is non-refundable. The maximum credit percentage also drops from 50% to 35%. Fewer care expenses are eligible for the credit as well. For



Myth: I had an excess Advance Payment of Premium Tax Credit from insurance that I purchased through the government website in 2021. I am not required to repay the excess credit.
Truth: False, the excess Advance Payments were not required to be repaid in **2020** only as a Provision of the American Rescue Plan Act.

Myth: My 2021 unemployment benefits remain non-taxable income on my federal income tax return.
Truth: False, this provision was only available for the 2020 tax year and for only up to the first $10,200 in benefits if your Adjusted Gross Income was less than $150,000.

Myth: Many single dependent college students in 2020 were not eligible to receive the third Economic Stimulus Payment of $1,400. The $1,400 stimulus was paid to the taxpayer who claimed them as a dependent.
Truth: Partially true. If the student remains a dependent in 2021 no further Stimulus Payment is made; however, if that 2020 dependent student is now filing their own return for 2021 and not being claimed as a dependent on anyone else's return, then they may be eligible for the $1,400 Stimulus Payment through the filing of their 2021 federal income tax return.

Myth: Parents who alternate claiming children of divorce as dependents on their tax return may have received an Advanced Child Tax Credit for a dependent(s) claimed in 2020 but will not be claiming any children as dependents on their 2021 federal income tax return. The excess credit will be subtracted from their refund or added to their balance due to the IRS.
Truth: Partially false. If you qualify for the repayment protection you will be excused from repaying some or all of the excess amount. If you do not qualify for repayment protection, you will need to report the entire excess amount on your 2021 tax return as additional income tax. This additional income tax will reduce the amount of your tax refund or increase your total tax due for 2021. You won't qualify for any repayment protection if your modified adjusted gross income (MAGI) is at or above the following amount based on the filing status on your 2021 tax return:

- $120,000 if you are married and filing a joint return or if filing as a qualifying widow or widower;
- $100,000 if you are filing as head of household;
and
- $80,000 if you are a single filer or are married and filing a separate return.

2022, the credit is only allowed for up to $3,000 in expenses for one child/dependent and $6,000 for more than one. When the 35% maximum credit percentage is applied, that puts the top credit for the 2022 tax year at $1,050 (35% of $3,000) if you have just one child/dependent in your family and $2,100 (35% of $6,000) if you have more. In addition, the full child and dependent care credit will only be allowed for families making less than $15,000 a year in 2022 (instead of $125,000 per year allowed in 2021). After that, the credit starts to phase-out.

✔ *Charitable Deduction for Non-Itemizing Taxpayers*

The deduction for taxpayers not itemizing their deductions on Schedule A for up to $300 of charitable cash contributions ($600 for married couple filing a joint return) expired at the end of 2021. As a result, it is not available for the 2022 tax year (it was available for 2020 and 2021). Only people who claimed the standard deduction on their tax return (rather than claiming itemized deductions on Schedule A) were permitted to take this deduction.

✔ *Educator Expenses Increased for 2022*

For the 2022 tax year, teachers and other educators who dig into their own pockets to buy books, supplies, COVID-19 protective items, and other materials used in the classroom can deduct up to $300 of these out-of-pocket expenses ($250 for 2021). The maximum deduction for 2022 jumps to $600 for a married couple filing a joint return if both spouses are eligible educators – but not more than $300 each.

An "eligible educator" is anyone who is a kindergarten through 12th grade teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year.

✔ *Coronavirus-Related Distributions from 2020 Continue to Effect 2022 Tax Returns*

Do not forget that certain Coronavirus-related distributions made in 2020 from 401(k), 403(b) and IRAs to qualified individuals escaped the 10% penalty for early withdrawal for taxpayers under age 59 ½. Additionally, these distributions generally were included in income ratably over a three-year period, starting in 2020, the year in which you received your qualified distribution. For example, if you received a $15,000 Coronavirus-related distribution in 2020, you would have already reported $5,000 in income on your federal income tax returns for each of 2020 and 2021. However, you had the option of including the entire distribution in your income for the year of the distribution. If you did not report the entire distribution in 2020, you will be reporting the final 1/3 of the distribution on your 2022 tax return.

0% Long Term Capital Gains Rate

Tax rates on gains from the sale of capital assets held for at least one year and qualified dividends remain at historic lows…0%, 15% and 20%. However, the income thresholds to qualify for the various rates have been adjusted for inflation.

In 2022, the 0% rate applies for individual taxpayers with taxable income up to $41,675 on single returns ($40,400 for 2021), $55,800 for head-of-household filers ($54,100 for 2021) and $83,350 for joint returns ($80,800 for 2021).

Short term capital gains (sales of capital assets held less than 1 year) are taxed at ordinary tax rates.

Social Security Wage Base Increases

The Social Security annual wage base is $147,000 for 2022 (a $4,200 increase from 2021). The Social Security tax rate on employers and employees stays at 6.2%. Both workers and employers continue to pay the 1.45% Medicare tax on all compensation in 2022, with no cap. Workers also pay the 0.9% Medicare surtax on 2022 wages and self-employment income over $200,000 for singles and $250,000 for couples.

The Tax Man

1800 Hamilton Ave., Ste. 220
San Jose, CA 95125-5635

RETURN SERVICE REQUESTED

Your Tax Calendar

June 15 2Q 2022 Federal Tax Estimate due.

Sept 15 3Q 2022 Federal Tax Estimate due.

Oct 17 2022 Tax Returns due without extensions.

Jan 17 4Q 2023 Federal Tax Estimates due.

Anytime you have any questions, don't hesitate to call me. I am here for you!

Standard Deduction Increased For Inflation For 2022

The standard deduction amounts have been increased for 2022 to account for inflation. Married couples get $25,900 ($25,100 for 2021), plus $1,400 for each spouse age 65 or older ($1,350 for 2021). Singles can claim a $12,950 standard deduction ($12,550 for 2021) — $14,700 if they are at least 65 years old ($14,250 for 2021). Head-of-household filers get $19,400 for their standard deduction ($18,800 for 2021), plus an additional $1,750 once they reach age 65 ($1,700 for 2021). Blind people can add an extra $1,400 to their standard deduction ($1,350 for 2021). That jumps to $1,750 if they are unmarried and not a surviving spouse ($1,700 for 2021).

Amended Return?

If you forgot some key information, I could file an amended return for you. You have 3 years after the filing deadline to change your return. Most 2018 returns have passed their deadline for filing an amendment. Call me if you have discovered tax documents or information that you originally omitted from a previously filed tax return. Amended tax returns still have an October 17, 2022 due date.