

TAX NEWS

WINTER 2022/2023

Dear Client:

Best wishes for a wonderful holiday season and a very happy new year as we move from 2022 to 2023. We appreciate your business throughout the year and look forward to working with you in the upcoming tax season.

We are available to help you with your year-end tax planning for both your individual tax situation and business strategies. In this newsletter we have included information to consider for both your personal income tax return and business considerations for the self-employed taxpayer. Some of these issues are time sensitive and need to be acted upon by the end of the year.

Happy New Year 2023

The only major piece of legislation which included tax provisions is the Inflation Reduction Act of 2022 which was passed on August 16, 2022.

Many of the provisions of this bill included credits for sustainability-related programs. For individuals the bill included provisions to: negotiate prices of certain prescription drugs for Medicare and Medicaid recipients; expanded the eligibility of the premium tax credits to all participants in the federal or state health exchange; extended the limitation on excess business losses through 2028; restores the 30% credit for solar installations; and repeals the lifetime limit for the nonbusiness energy credit and now allows for a credit of \$1,200 per year per taxpayer.

As always, do not hesitate to contact our office if any of these items raise a question or consideration of your tax situation.

WHEN WILL THE IRS START ACCEPTING 2023 TAX RETURNS AND ISSUING REFUNDS?

The IRS usually starts accepting tax returns during the last week of January. If major new tax legislation is passed at the end of the year, however, this could push the start of tax season back by a week or two. So, early tax filers who are a due a refund can often see them as early as mid- or late February. However, taxpayers with the Earned Income Tax Credit or Child Tax Credit generally have their refunds delayed by about one month while the IRS confirms eligibility for these credits.

Although prior tax filing seasons were significantly impacted by the COVID-19 pandemic, and the IRS had extended deadlines, the IRS is not expected to extend the tax filing deadline for 2023. The below chart shows an estimated timeline for when a taxpayer is likely to receive their refund, based on the information we have now, and using projections based on previous years- and depending on when a person files their return. If your IRS income tax refund is delayed after you have filed, simply use the "Where's My Refund?" tool

on the IRS website. Or download the IRS2Go app to check your refund status. Most taxpayers who are expecting an income tax refund generally will receive it by direct deposit in as little as 2 weeks, although it can take longer during the peak of the filing season or if there is a discrepancy with the information on file with the IRS. So, it is a good idea to e-file your tax return as soon as you have all of your tax documents (like your W2, 1099s, mortgage and student loan

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WHEN WILL THE IRS START ACCEPTING 2023 TAX RETURNS AND ISSUING REFUNDS? ... CONTINUED FROM PAGE 1

interest, and other items).

Several factors can determine when a taxpayer may receive their tax return, including:

- How early they file
- If the taxpayer is claiming certain credits (especially EITC and CTC)
- Whether the return is e-filed or sent by mail
- Whether the taxpayer has existing debts to the federal government

NOTE: The IRS will delay processing by 2-3 weeks if an income tax return has the Earned Income Tax Credit (EITC) or Child Tax Credit (CTC), which allows the IRS to verify that taxpayers qualify for the credits. So, here is a chart you of the anticipated refund dates. Remember: this is an estimate of when to expect your refund. It is not exact, as all taxpayers have different returns and situations. Note that the first column is when the IRS “accepts” your return, which can be 2-3 days after it is submitted electronically. Mailing in a return can result in a few weeks’ extra delay at the beginning of the process, since the IRS will need to enter it into their computer systems manually.

Estimated 2023 IRS Income Tax Return Chart

IRS Accepts an E-Filed Return By:	Direct Deposit Sent (Or Paper Check Mailed 1 week later):
Jan. 23, 2023*	Feb. 3 (Feb. 10)**
Jan. 30, 2023*	Feb. 10 (Feb. 17)**
Feb. 6	Feb. 17 (Feb. 24)**
Feb. 13	Feb. 24 (Mar. 3)**
Feb. 20	Mar. 3 (Mar. 10)**
Feb. 27	Mar. 10 (Mar 17)
Mar. 6	Mar. 17 (Mar. 24)
Mar. 13	Mar. 24 (Apr. 1)
Mar. 20	Mar. 31 (April 7)
Mar. 27	Apr. 7 (Apr. 14)***
Apr. 3	Apr. 14 (Apr. 21)***
Apr. 10	Apr. 21 (Apr. 28)***
Apr. 17	Apr. 28 (May 5)
Apr. 24	May 5 (May 12)
May 1	May 12 (May 19)
May 8	May 19 (May 26)
May 15	May 26 (June 3)
May 22	June 3 (June 10)

IRS may start accepting income tax returns as early as Jan. 23, 2023 (again, this is just a guess at this time).

IMPORTANT: If you file electronically (using an online tax program or preparer), the IRS will notify you of the actual date they “accepted” your return. This is often 1-3 days from the time you actually hit the “file” or “submit” button, and it is this date that you need to use on the left side of the above chart.

Taxpayers who mail a paper version of their income tax return can expect at least a 3–4 week delay at the front-end of the process, as the return has to be manually entered into the IRS system before it can be processed.

* = IRS may delay start of tax season by a week or so.

** = Returns with EITC or CTC may have refunds delayed until March to verify credits.

*** = Filing during peak season can result in slightly longer waits.

WHAT IS THE DIFFERENCE BETWEEN A HOBBY AND A BUSINESS?

A business operates to make a profit. People engage in a hobby for sport or recreation, not to make a profit. Here are nine considerations when determining if an activity is a hobby or a business:

- Whether the activity is carried out in a businesslike manner and the taxpayer maintains complete and accurate books and records.
- Whether the time and effort the taxpayer puts into the activity show they intend to make it profitable.
- Whether they depend on income from the activity for their livelihood.
- Whether any losses are due to circumstances beyond the taxpayer’s control or are normal for the startup phase of their type of business.
- Whether they change methods of operation to improve profitability.
- Whether the taxpayer and their advisors have the knowledge needed to carry out the activity as a successful business.

- Whether the taxpayer was successful in making a profit in similar activities in the past.
- Whether the activity makes a profit in some years and how much profit it makes.
- Whether the taxpayers can expect to make a future profit from the appreciation of the assets used in the activity.

From scrapbooking to glass blowing, many Americans enjoy hobbies that are also a source of income. A taxpayer must report income on their tax return even if it is made from a hobby. However, since the passage of the Tax Cuts and Jobs Act, associated expenses with the hobby activity are not deductible on the tax return.

Contact the office for assistance if you are unsure whether your business activity would be considered a hobby or would qualify to be classified as an active trade or business. The treatment of business expenses is vastly different between the two entities.

INDIVIDUAL TAX CONSIDERATIONS FOR 2022:

As we reach the end of the year, now is the time to start sorting your tax documents for an on-time filing of your individual income tax return. Following is a listing of items to consider when preparing for the preparation of your individual tax return:

- Note any changes to your marital status, or the birth (or death) of dependent children. For divorced clients, please submit a copy of the divorce decree and child support agreement.
- Did you receive or pay alimony payments? Depending on the date of the divorce, this may no longer be a tax consideration.
- At any time during 2022, did you sell, receive, exchange or otherwise transact any business in any virtual currency? Note: this is a highly reviewed area within the IRS, be sure to let us know of any virtual transactions you have conducted.
- While the mandate for health insurance remains, the penalty for failure to maintain minimum essential coverage on the federal tax return has been eliminated. However, the IRS still requires the reconciliation on your individual tax return if your health care coverage is through either the state or federal Marketplace. Be sure to include Form 1095-A with your tax documents.
- Include all Forms W-2's with your tax documents.
- Include any interest income received on Form 1099-INT.
- Did you have a brokerage account or investments? Include all Forms 1099-DIV and Forms 1099-B with your tax documents.
- If you sold any stock or assets, be sure the initial cost (or basis) is included with the sale documents (if not already included on your tax forms).
- Did you receive funds from a pension or IRA? Include Forms 1099-R with your tax documents.
- Are you a shareholder in an S corporation or partner in a partnership? Are you the beneficiary of a trust or estate? If so, you will receive a Schedule K-1 for your representative share. We are aware that these generally tend to come later than sooner, so let us know if you are waiting for receipt of a Schedule K-1 and we will extend the individual income tax return.
- If you received unemployment in 2022, be sure to go onto your state website to download the Form 1099-G. Most states have stopped mailing out this form automatically. The same holds true if you received a state refund in 2022 on your 2020 state income tax return.
- Are you receiving Social Security? Include the annual statement from the Social Security Administration. If you have an SSA.gov account, this form is available on their website.
- Include any other miscellaneous income, such as:
 - Gambling winnings
 - Hobby income
 - Legal settlements
 - Income not subject to self-employment tax
- Do you own rental property? If so, include an accounting of the income received and expenses paid on behalf of the property.
- Child and dependent care expenses – include a statement with the provider's name and address, tax identification number and amount paid.
- Did you pay education expenses for either you or a dependent? Include the tuition amount paid as well as other expenses for books, computers, internet, room and board. The name and address and the EIN of the education institution is also needed.
- Are you a teacher in grades K through 12, working at least 900 hours a year? Include any out-of-pocket expenses for materials and supplies purchased. For 2022, the amount has increased from \$250 to \$300 for allowable deduction of supplies.
- While many taxpayers will not be able to itemize due to the increased amount of the standard deduction, following are some items to consider which may provide a better tax benefit:
 - Medical and dental costs, including any insurance premiums paid
 - Tax paid, including real estate, state taxes, or personal property taxes
 - Interest paid on a primary or secondary home
 - Points paid on the purchase or refinance of a home
 - Investment interest
 - Gambling losses
- Did you pay on a student loan? Did your employer provide any assistance in payment of the loan? Include the interest statement from the financial institution along with any payments made on your behalf by your employer.
- Include a listing of charitable contributions paid with cash and a separate listing of non-cash donations.
- Did you have a casualty loss as a result of a federally declared disaster area? Provide the total amount of the loss and any payments issued by your insurance company or government agencies such as FEMA.
- Did you make a contribution to your IRA or other deferred compensation plan? If so, Include Form 5498 with your tax documents.
- Did you make any additions or improvements to your home that included solar installations or energy efficient improvements that have the "Energy Star" rating?

While not a comprehensive list, this includes some of the more popular tax items we encounter on tax returns. Our office will be sending out organizers by the end of the year. We would appreciate your cooperation in completing the organizer completely. The above listing will help with compiling the information needed to file a complete and accurate income tax return. Contact our office if there are any questions regarding the tax information requested.

ASPIRING ENTREPRENEURS: LEARN THE BASICS OF SETTING UP A BUSINESS

New entrepreneurs can start out on the right foot by making sure they understand the tax responsibilities of running a business. The process can seem daunting, but IRS.gov has resources to help new business owners.

Here are a few things new entrepreneurs need to do when starting their business.

CHOOSE A BUSINESS STRUCTURE

The form of business determines which income tax return a business taxpayer needs to file. The most common business structures are:

- **Sole proprietorship:** An unincorporated business owned by an individual. There is no distinction between the taxpayer and their business.
- **Partnership:** An unincorporated business with ownership shared between two or more people.
- **Corporation:** Also known as a C corporation. It's a separate entity owned by shareholders.
- **S Corporation:** A corporation that elects to pass corporate income, losses, deductions and credits through to the shareholders.
- **Limited Liability Company:** A business structure allowed by state statute – only a legal designation, the tax treatment can vary.

APPLY FOR AN EMPLOYER IDENTIFICATION NUMBER

An EIN is also called a federal tax identification number. It is used to identify a business. It is important for a business with an EIN to keep the business mailing address, location and responsible party up to date. IRS regulations require EIN holders to report changes in the responsible party within 60 days.

RECORDKEEPING

An effective recordkeeping system is vital to track the success of your business. Good records will help you monitor the progress of your business, prepare your financial statements, identify sources of income, keep track of deductible expenses, keep track of your basis in property, prepare your tax returns, and support items reported on your tax returns.

All employees must complete these forms:

- Form I-9, Employment Eligibility Verification U.S. Citizenship and Immigration Services
- Form W-4 Employee's Withholding Allowance Certificate
- State withholding allowance certificate (if applicable)

PAY BUSINESS TAXES

The form of business determines what taxes must be paid and how to pay them.

VISIT STATE'S WEBSITE

Prospective business owners should visit their state's website for info about state requirements. Listing available [here](#).

We are uniquely positioned to help you with the formation of your new business and continued compliance with the tax regulations. Contact our office for assistance with the setup of your business venture.

DEFERRED COMPENSATION LIMITS FOR 2022 AND 2023:

Following is a listing of deferred compensation plans and their contribution limits. These plans are time sensitive and should be included as part of your tax planning prior to year-end.

These benefits may be subject to certain income thresholds. Contact our office if you are interested in starting or contributing to a deferred compensation plan. Some of these plans have a December 31 due date, others are eligible to accept contributions up until the tax filing deadline of April 15.

DEFERRED COMP PROGRAM	2022 Contribution Limits	2023 Contribution Limits
401(k) Elective Deferral	\$20,500	\$22,500
403(b) Elective Deferral	\$20,500	\$22,500
401(k)/403(b) Catch-up Provision for Age 50 or older	\$6,500	\$7,500
Designated Roth	\$20,500	\$22,500
Defined Contribution Plan	\$61,000	\$66,000
Annual Compensation Limits	\$305,000	\$330,000
SEP Participant Threshold	\$650	\$750
SIMPLE Plans	\$14,000	\$15,500
Individual Retirement Account (IRA)	\$6,000	\$6,500
IRA Catch-up Provision for Age 50 or older	\$1,000	\$1,000
Roth IRA	\$6,000	\$6,500
Roth Catch-up Provision for Age 50 or older	\$1,000	\$1,000
Social Security Wage Base	\$147,000	\$160,200