

December 2, 2022

Dear Clients and Friends,

As we wrap up 2022, there is still time for year-end tax planning and steps that could save you money. Please contact us at your earliest convenience to discuss your tax situation so we can develop a customized plan. In the meantime, here's a look at some issues to consider as we approach year-end.

Individual Tax Strategies

- **Inflation planning opportunities**

Due to inflation, each tax bracket is increasing by 7% from 2022 to 2023 which provides the opportunity to shift income to a lower tax rate. Consider accelerating deductions in 2022 and deferring income to 2023.

- **Clean Energy Provisions**

The residential provisions of recently enacted legislation provides up to a \$1,200 credit for a qualifying installation and up to a \$2,000 credit for electric heat pumps. Households can receive a tax credit to cover up to 30 percent of the cost of installing solar panels, and beginning 2023, battery storage. The Energy Star website provides a useful resource explaining tax credits.

<https://www.energystar.gov/>

Electric Vehicle Tax Credits provide up to a \$7,000 credit for new electric vehicles and a \$4,000 credit for used electric vehicles. To receive the full deduction, a percentage of the critical minerals and battery components must be from North America. Also, there is a requirement that the final assembly of the vehicle be in North America. Click the link below for a list of vehicles currently meeting the final assembly requirements.

[Link to Vehicles Assembled in North America](#)

- **Missouri Tax Rate Reduction**

Beginning in 2023, Missouri enacted legislation that reduces the top individual income tax rate from 5.4% to 4.95%, and the first \$1,000 of an individual's income is not taxable.

- **KCMO Refund Procedures**

Effective for 2022, nonresidents who work within and outside the city limits of a Kansas City, MO employer must now file refund requests within one year of the due date of the return. Taxpayers must submit a Notice of Earnings Tax Payment Under Protest Form (Form RD-PUP) which can be completed and submitted online or downloaded and submitted by mail. Therefore, it is important to work with your employer's payroll department to reduce withholdings for days worked outside of KCMO (rather than protest excess withholdings).

- **Required Minimum Distributions (RMD)**

The language in the SECURE Act, passed in 2020, has caused confusion around distribution requirements of inherited beneficiaries of IRA's. The IRS stated that inherited beneficiaries must withdraw the entire value of the IRA within ten years of the original owner's death. Many people took this to mean that they could draw down the IRA balance whenever they wished as long as the value was zero at the end of ten years. Subsequent guidance was issued by the IRS adding clarity to the language in the SECURE Act stating that inherited beneficiaries must take annual required minimum distributions throughout the ten-year window. Since so many people interpreted this rule differently, any RMDs not taken by inherited beneficiaries before 2023 will not be penalized and those that were, can ask for a refund. The AICPA has recently requested further guidance around the specifics of the required minimum distributions.

- **SALT Parity (see business strategies below regarding Passthrough entity taxation)**

Business Tax Strategies

- **Clean Energy Provision – 179D Deduction**

Starting in 2023, the energy efficiency tax deduction allows owners to claim up to \$2.50 per square foot as a 179D tax deduction for installing qualifying systems that meet energy saving thresholds. An inspection must be performed by a third-party professional engineer licensed in the state of the building. Using IRS approved software, the engineer will verify that the improvements meet the applicable energy-saving thresholds in accordance with ASHRAE standards. Instead of capitalizing and depreciating these costs over 39 years, the taxpayer can receive immediate benefit, but it is still subject to depreciation recapture. The building owner can claim a deduction every three years. Refer to the Energy Star link below for more information around the 179D deduction.

[Link to Energy Star 179D Deduction for Commercial Buildings](#)

- **Employee Retention Tax Credits (ERTC)**

Qualifying employers can still claim the ERTC based on qualifying wages paid to employees from March 13, 2020, to September 30, 2021 (even if PPP forgiveness was obtained). There is a three-year window to claim the credit making the expiration of 2020 1st quarter credits starting on April 30, 2023. Because businesses cannot double-dip by claiming both a credit and a deduction for qualifying expenditures, employers the claim ERTC (and their owners) must also amend income tax returns to reduce those deductions by the amount of credit.

- **Passthrough Entity Taxation (SALT Parity Legislation)**

For individuals, itemized deductions for all forms of taxes paid (including state\local income taxes) are restricted to \$10,000. In 2022, legislation in Missouri and Kansas was adopted allowing Passthrough entities to elect to pay state and local taxes rather than at the individual level. Once paid at the entity level, a credit can be taken by each passthrough owner equal to their allocable share of Passthrough entity tax. The business deducts this tax on the entity return. Effectively, this allows taxpayers to take an above-the-line deduction for an amount greater than the \$10,000 by reducing the federal K-1 income.

- **Bonus Depreciation**

Bonus Depreciation immediate expensing is 100% for 2022 but is reduced to 80% in 2023. The remaining 20% can potentially be taken as a Section 179 expense. However, the Sec. 179 expense can't be more than the amount of business taxable income (which in some cases makes it less advantageous than bonus depreciation).

- **Business Meals Deduction**

As a COVID-relief measure, business meals are 100% deductible in 2022. This deduction reverts to 50% in 2023.

Additional Resources

[Link to 2022 Year-End Tax Planning](#)

Please connect with us on LinkedIn for periodic tax and business postings.

[Russ Koca's LinkedIn Profile](#)

Sincerely,

