TaxUpdate

2022 MID-YEAR NEWSLETTER

AccuBooks Tax
Elizabeth L. O'Donnell, EA

Personalized & Professional Tax Services

PO Box 1260
Arroyo Grande CA 93421
805.668.3250 / mobile 714.745.0375
taxbyaccubooks@gmail.com
www.AccuBooksTax.com

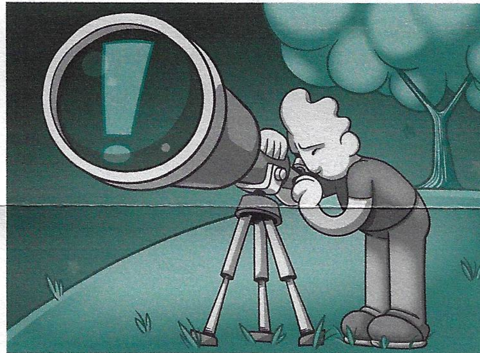
Begin Tax Planning Now for Your 2022 Return!

Now is the time to begin tax planning for your 2022 return. Here are some ideas:

Find out what drives your tax liability. Review your completed 2021 tax return to examine your income and deductions, focusing on the larger dollar amounts. These are the drivers of your tax obligation. By applying 2022's tax rates, you can forecast your potential tax liability for the 2022 tax year.

Review major changes in your life. New kids, changes in your marital status, and selling a house can all cause your tax situation to change. Collect all documents related to these life events as they create a need for a new tax forecast.

Contribute to retirement accounts. Tally up all your 2022 contributions to retirement accounts so far, and estimate how much more you can stash away between now and December 31.



Consider investing in an IRA or increase your contributions to your employer-provided retirement plans. You can reduce your 2022 taxable income by as much as $20,500 by contributing to a 401(k). If you're age 50 or older, you can reduce your taxable income by up to $27,000!

Consider donor-advised funds. With a 2022 standard deduction of $12,950 if you're single and $25,900 if you're married, you may not be able to claim your charitable donations as an itemized tax deduction. As an alternative, consider donating multiple years-worth of contributions to a donor-advised fund if you have the available cash so you can easily exceed the standard deduction this year. Then make your cash contributions from the donor-advised fund to your favorite charities over the next three years.

Maximize your FSA or HSA contributions. If you have a flexible spending account (FSA), you can contribute up to $2,850 in 2022. These accounts allow you to pay for medical expenses in pre-tax dollars! And if you have a health savings account (HSA), you can contribute up to $3,650 if you're single and $7,300 if you're married.

Finally, don't forget to schedule a tax planning session to go over your options.

Common Tax Increase Surprises

You've received your tax return and have a small but nice refund. Now imagine your surprise, when this year, you are required to send in a fairly big tax payment. Here are some situations that could be the culprit:

New tax laws. There are several changes that could result in a higher tax bill:

- Repayment of excess tax credits.
- New taxability of unemployment benefits.
- The need to take required minimum distributions once again in 2021.

A child is no longer eligible. As children get older they grow out of lots of things — clothes, interests and tax credits. Here are some age requirements for popular tax benefits:

- Child and Dependent Care Credit: under age 13
- Child Tax Credit: over age 17 (for the 2021 tax year)
- Earned Income Tax Credit: under age 19 (24 if a qualified student) for the 2021 tax year

Earnings with Social Security benefits. If you are recently retired, start collecting Social Security benefits, and then begin working part-time, some of your Social Security benefits might end up getting taxed.

Other life events. While some life events may have positive tax consequences like a new birth, others might surprise you and result in additional tax, such as retirement, death and entering/leaving school.

Capital gains surprises from mutual funds. Often sales of investments are a planned event. Unfortunately, many mutual funds sell assets and then you receive a capital gain statement with a surprise taxable event.

Want to avoid these surprises?

Spend some time now reviewing your anticipated tax situation for next year. By doing so, perhaps a pleasant surprise can be in store for you.

Why is the IRS Sending Me This?!?

Late filing penalties for tax returns that were actually filed on time and timely tax payments being flagged as late are just some of the headaches taxpayers are grappling with due to a massive backlog at the IRS.

The IRS is providing some relief, however, by turning off some of its automated notices as it works through its backlog.

Background

With the pandemic, incredibly late tax law changes from Congress, the congressional imposition on the IRS to send out three rounds of stimulus checks, and the requirement to create a new, automatic payment system of child tax credits has created a huge backlog at the IRS. In fact, there are over 6 million tax returns from last year that have still not been processed.

In the meantime, there are automated notices that go out to taxpayers that have not filed tax returns or corrected errors as deemed by IRS audit programming. To make matters worse, payments are being processed without an underlying tax return and the IRS is telling you they will return the money if you do not file your return. Penalties are imposed, there are demands for payment, even repeated notices to fix errors that have been fixed months ago!

Current situation

The IRS is now acknowledging the angst and hardship these notices are causing, at least for some taxpayers. So effective immediately, the IRS is turning off the following notices:

- Unfiled Tax Return
- Return Delinquency Notice
- Balance Due Notices
- Withholding Compliance Letter

Source: IR 2022-31

What you should know

Don't fret. IRS notices almost always raise your blood pressure. So open the notice and ask for help.

If you receive a notice, reply to it. While the IRS says it is not necessary to reply, you should probably still do so. Your reply must be timely *AND* be sent with confirmation of date sent. You can use certified mail or express mail service with tracking information. You don't want to get caught up in the IRS machine while they try to sort it out.

Compliance is required. While the IRS is turning off many notices, the penalties and interest will still accrue if you have not filed your tax return or owe tax. So file your tax return and pay the tax as it is still required.

E-file helps. While some forms must still be processed via mail, most individual tax returns can be sent via e-file. Continue to file your return digitally whenever possible. Unfortunately, handling these correspondence audits often requires a written response.

It is temporary. The IRS will turn these notices back on after the backlog of tax returns is brought under control.

Sanity will hopefully return and all future tax law changes will be made before the next tax year starts. Just don't hold your breath and be quick to ask for help if you need it.

Make Your Child a Tax-Free Millionaire!

Want to jump start your child's retirement with a million dollar tax-free account? Consider this:

The million dollar idea

As soon as your child begins to earn income, open a Roth IRA and set a contribution goal to reach before they graduate from high school. Assuming an 8% expected rate of return, the investments made by age 19 will grow to FORTY times its value by the time they reach 67 (current full retirement age). For example, $2,500 invested before graduation will be $100,000 at retirement. If you can bump that up to a $25,000 investment before graduation, at retirement it will be worth $1 million!

Tips to achieve the goal

- Hire your child. Roth IRA contributions are limited to the amount of income your child earns, so earned income is key. If you own a business or even make some money on the side, consider hiring your child to help with cleaning the office, filing or other tasks they can handle.
- Look for acceptable young-age work ideas. Babysitting, yard work, walking pets, shoveling, and lawn work are all good ideas to get your child earning some income at a younger age.
- Leverage high school years. Ages 15 through 18 will be when your child has their highest earning potential before graduation. Summer jobs, internships and part-time jobs during the school year can produce a consistent income flow to contribute to their Roth IRA and still provide spending money.
- Parent or grandparent matching idea. The income earned by your child doesn't have to be directly contributed by them to the Roth IRA – it simply sets the contribution limit. Make a deal that for every dollar of income your child saves for college, a parent or grandparent contributes a matching amount to their Roth account.

By helping your child get a head start on saving, it should ease any anxiety regarding retirement and help them focus on school, starting their career, and other personal development goals.

This publication provides summary information regarding the subject matter at time of printing. Please call with any questions on how this information may impact your situation.

03-500 © 2022