

Froehling Anderson's

COFFEE

Break

Froehling's Annual Tax Update

Wednesday, December 21, 2022

Froehling's Annual Tax Update

Presenters:

Danny Anderson

Hayley Berthiaume, CPA

Joe Rubenstein, CPA

Karlee Strack, CPA

Kyle Welle, CPA

Topics

- Mileage rates
- Student loan forgiveness
- Tax brackets
- 163(J) Excess Business Interest
- IRS Enhancements
- K-2/K-3 Foreign Reporting
- Depreciation Changes
- Research & Development
- Child Tax Credit
- Vehicle Credits



Presenter:

Danny Anderson

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Mileage Rates Update

Personal Use of Vehicle

- Standard mileage rate of business travel is 62.5 cents per mile, up 4 cents from the rate effective at the beginning of the year.
- New rate for deductible medical expenses will now be 22 cents, up from 18 cents, beginning July 1, 2022, for the remainder of the year.
- The mileage rate for charitable activities remains unchanged at 14 cents per mile.
- Increased rates only apply to travel between July 1 and December 31 of 2022. For travel between January 1 and June 30 of 2022, taxpayers should use the prior rates of 58.5 cents per mile for business travel and 18 cents per mile for deductible medical expenses.



Mileage Rates Update

Personal Use of Vehicle

Standard mileage rate of business travel	62.5 cents per mile	4 cent increase from beginning of the year
New rate for deductible medical expenses	22 cents	18 cent increase, July 1-December 31, 2022
Mileage rate for charitable activities	14 cents per mile	remains unchanged

Increased rates only apply to travel between July 1 and December 31, 2022.

January 1-June 30, 2022, taxpayers should use the prior rates of 58.5 cents per mile for business travel; 18 cents per mile for deductible medical expenses.



Student Loan Forgiveness

- Under the Biden-Harris Administration's Student Debt Relief Plan, qualified borrowers can have up to \$10,000 of student loan debt forgiven.
- Pell Grant recipients eligible for additional \$10,000 in forgiveness (\$20,000 total).
- At this time, no one has received debt relief. The next steps are as follows:
 - Biden administration must file legal briefs by January 4, 2023.
 - Challengers in both cases must file legal briefs by January 27, 2023.
 - Biden administration must submit any reply to the challengers' briefs by February 15.



Presenter:

Hayley Berthiaume, CPA

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Tax brackets

Marginal tax brackets

RATE	2022		2023	
	SINGLE FILER	MARRIED FILING JOINTLY	SINGLE FILER	MARRIED FILING JOINTLY
37%	>\$539,900	>\$647,850	>\$578,125	>\$693,750
35%	>\$215,950	>\$431,900	>\$231,500	>\$462,500
32%	>\$170,050	>\$340,100	>\$182,100	>\$364,200
24%	>\$89,075	>\$178,150	>\$95,375	>\$190,750
22%	>\$41,775	>\$83,550	>\$44,725	>\$89,450
12%	>\$10,275	>\$20,550	>\$11,000	>\$22,000
10%	≤\$10,275	≤\$20,550	≤\$11,000	≤\$22,000



Tax brackets

Under TCJA – 10%, 12%, 22%, 24%, 32%, 35%, 37%

Pre TCJA - effective beginning in 2026:

- 12% goes to 15%
- 22% goes to 25%
- 24% goes to 28%
- Maximum rate 39.6%



163(J) Excess Business Interest

In 2022, no longer an addback for depreciation, amortization, depletion

2021 - With Depreciation, Amortization, & Depletion				2022 - <u>Without</u> Depreciation, Amortization, & Depletion			
Business Interest Expense			200,000	Business Interest Expense			200,000
Taxable Income	150,000			Taxable Income	150,000		
	Addbacks				Addbacks		
Depreciation, Amortization, Depletion	300,000			Depreciation, Amortization, Depletion	-		
Business Interest Expense	200,000			Business Interest Expense	200,000		
Adjusted Taxable Income	650,000			Adjusted Taxable Income	350,000		
30% ATI Limitation	30%			30% ATI Limitation	30%		
Limitation	195,000			Limitation	105,000		
Allowed Business Interest Expense			195,000	Allowed Business Interest Expense			105,000
Disallowed Business Interest Expense			5,000	Disallowed Business Interest Expense			95,000

Presenter:

Joe Rubenstein, CPA

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IRS Enhancements

What does all this hiring mean for you?

- Intended to get to the pre-pandemic levels
- Not all auditors
- More of a rebuild



IRS Enhancements

IRS is working hard on implementing the landmark 10-year legislation

- Recently surpassed 4,000 new customer service representatives
- Adding another 1,000 customer service representatives by the end of December
- Not just hiring customer service reps, looking to improve all positions (IT and compliance)



Presenter:

Karlee Strack, CPA

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K-2/K-3 Foreign Reporting

Helps to standardize the reporting of international tax items

- Filing exception requirements for Partnership and S-Corporations:
 - The entity has no or limited foreign activity
 - The direct partner/shareholders are US citizens/resident aliens
 - The entity must provide a notice (by the tax return filing date) to its partners/shareholders that they will not receive a K-3 unless it is specifically requested
 - The entity does not receive any specific requests from partners/shareholders that they require a K-3



Depreciation Changes

Bonus depreciation is going from 100% in 2022 down to 80% in 2023. Continues to drop by 20% until 2026.

Consider making large purchases by year-end and accelerating future purchase timelines.



Research & Development



Changes to the R&D world include having to add back any R&D expenses and amortize over 5 years, as opposed to expensing as you spend it.



The R&D credit form now requires additional information in order to claim the credit.

Presenter:

Kyle Welle, CPA

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Child Tax Credit through 2025

- \$2,000 per child (along with higher phaseouts and refundability)
- \$500 for each dependent who's not a qualifying child
- (Note that ARPA increases expired in 2021, BBB would extend through 2022)
- Phase out single \$200,000, MJF \$400,000

Pre TCJA effective in 2026

- \$1,000
- Phase out single \$75,000 MFJ \$110,000



Planning for reduced child tax credit in 2026

- Have children by 12/31/2025 (☐)
- Meet income thresholds (balancing with lower tax rates)
- Retain older children as dependents through 2025. (??)



Vehicle Credits



Purchased in 2022

- Pre 08/16/2022 qualifies for tax credit up to \$7,500.
- Post 08/16/2022 - final assembly occurring in North America.
 - Dept of Energy - [Alternative Fuels Data Center: Electric Vehicles with Final Assembly in North America \(energy.gov\)](#)
 - National Highway Traffic Safety Administration - [VIN Decoder | NHTSA](#)
- Tesla and GM do not qualify (Exceed 200,000 units sold)

Purchased after 2022

- New factors to qualify for credit
 - EV battery must meet standards
- Critical Minerals (\$3,750):
 - At least 40% must have been extracted or processed in the United States, or country that has a free trade agreement
- Battery Components (\$3,750):
 - At least 50% must have been manufactured or assembled in North America

Vehicle Credits (continued)

Two new credits added beginning in 2023

- IRC Section 25E credit for previously owned clean vehicles
 - 30% of EV's purchase price, up to \$4,000
 - Purchase price up not exceeding \$25,000, income threshold of \$150,000 for MFJ - \$75,000 for single filers
- IRC Section 45W for commercial clean vehicles
 - 15% of qualifying vehicle's cost (30% if EV)
 - Light-duty vehicles – credit limited to \$7,500
 - Heavy-duty vehicles – credit limited to \$40,000



Questions?



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Thank you for joining us today

