

CLIENT UPDATE

PRACTICAL TAX & FINANCIAL ADVICE

Sample Copy (Item #: 33-451) - To Order Call:

Home of **Tax-Aid** and **HG Forms**

Inside this Issue:

IRS Update 2
Identity thieves love tax season..... 2
Raising a financially savvy child 3
Ideas to improve your personal cash flow..... 3
Tax Court Corner 4

CLIENT UPDATE

W I N T E R 2 0 2 2

Shrink your tax bill in 2023

Here are several strategies to consider to shrink your tax bill in 2023.

- ▶ **Assess your income.** Begin by forecasting how your 2023 income will compare to your 2022 income, then find the tax rate for your new income level. Earning more could trigger phaseouts that will prevent you from taking advantage of certain deductions or tax credits. So be aware of this.
- ▶ **Consider life events.** Consider whether any of the following key events may take place in 2023, as they may have potential tax implications:
 - Purchasing or selling a home
 - Refinancing or adding a new mortgage
 - Getting married or divorced
 - Incurring large medical expenses
 - Changing jobs
 - Welcoming a baby
- ▶ **Manage your retirement.** One of the best ways to reduce your taxable income is to use tax beneficial retirement programs. Now is a good time to review your retirement account funding. Here are the contribution limits for 2023:
 - 401(k): \$22,500 (\$30,000, Age 50+)
 - IRA: \$6,500 (\$7,500, Age 50+)
 - SIMPLE IRA: \$15,500 (\$19,000, Age 50+)
 - Defined Benefit Plan: \$66,000
- ▶ **Look into credits.** There are a variety of tax credits available to most taxpayers. Spend some time looking through the most common ones to ensure your tax plan takes advantage of them. Here are some worth reviewing:
 - Child Tax Credit
 - Earned Income Tax Credit
 - Premium Tax Credit
 - Adoption Credit
 - Elderly and Disabled Credit
 - Educational Credits (Lifetime Learning Credit and American Opportunity Tax Credit)
- ▶ **Avoid surprises.** Tax surprises can hit you from several different angles, including from new legislation or being unaware of current tax reduction opportunities. To avoid getting stuck with an unexpected tax bill, consider scheduling several tax planning sessions throughout the year. Remember, some tax saving ideas may require funding on your part. It is best to identify them now so you can save the cash necessary to take advantage of them throughout 2023. ♦

TAX COURT CORNER

Here's a roundup of several recent tax court cases and what they mean for you.

Adding Tax Insult to Injury

(Dern, TC Memo 2022-90, 8/30/22)

Facts: Thomas Dern, a sales representative for a paint products company in California, was hospitalized for acute gastrointestinal bleeding and a subsequent heart attack. When the company fired him because he could no longer do his job, he sued for wrongful termination. The parties eventually reached a settlement.

Dern argued in Tax Court that his illness led to his firing, and therefore the settlement should be classified as non-taxable income. The payment he received, however, was to settle a discrimination lawsuit and not a physical injury. The settlement therefore did not qualify to be non-taxable income.

Tax Tip: Pay attention to the tax consequences of settlement payments so you don't get surprised with an unexpected tax bill.

You're Stuck With the Standard Deduction

(Salter, TC Memo 2022-49, 4/5/22)

Facts: Shawn Salter, a resident of Arizona, requested and received a distribution of \$37,000 from his retirement plan after being laid off from his job in 2013. Salter failed to file a tax return for 2013, so the IRS created a substitute tax return for him using the then-standard deduction of \$6,500 for a single taxpayer. The IRS also assessed an early withdrawal penalty of 10% on the distribution. Salter, arguing that the distribution was to pay for medical expenses which aren't subject to the 10% early withdrawal penalty, eventually did file a 2013 tax return with \$25,000 of itemized medical expenses. The Tax Court disallowed the \$25,000 of itemized deductions, stating that once a substitute return is created by the IRS using the standard deduction, the taxpayer can no longer claim itemized deductions for that year.

Tax Tip: Try to avoid a situation where the IRS files a substitute tax return on your behalf. Once this happens, you have no choice but to use the standard deduction for that tax year.

Thou Shalt Not Commingle Funds

(Vorreger, TC Memo 2022-97, 9/21/22)

Facts: A married couple, the sole shareholders of an S corporation, operated a family farm in Illinois. In 2012 they paid the farm's utility bills of \$21,000 and property taxes of \$109,000 from their personal funds, then deducted these payments on their individual Form 1040 tax return as business expenses.

Even though the utility and property tax bills were legitimate business expenses, the deduction was disallowed because the expenses should have first been deducted on the farm's S corporation tax return, then flowed through to the shareholder's individual tax return.

Tax Tip: To pay an expense on behalf of your business, first make a capital contribution to your business, then have your business pay the expense. Then include this expense on your business's tax return. ♦

Contact Us

1.800.888.5803
www.tangiblevalues.com

SOCIAL SECURITY changes for 2023

Social Security benefits jump by **8.7%**

Average Benefits
2023 **\$1,827/mo**
2022 **\$1,681/mo** **+ \$146**

Maximum amount you may pay in Social Security taxes
2023 **\$9,932**
2022 **\$9,114** **+ \$818**

DID YOU KNOW?

- You can increase your Social Security benefits by **5 to 8%** per year if you delay applying until age 70
- Ensure your earnings are accurately reported by visiting ssa.gov/myaccount

Thank you!

Your trust and your business are truly appreciated.

Wishing you a happy holiday season and a prosperous 2023.



IDENTITY THIEVES

LOVE

TAX SEASON

The vast amount of information shared online during tax season makes it a haven for identity thieves, and they're doing everything they can to take advantage of the opportunity! Here are ways that identity thieves are targeting you, common signs of ID theft, and steps to take if you become a victim.

How Identity Thieves Target You

- **Impersonating the IRS.** Thieves claiming to be the IRS will try and intimidate you into making an immediate payment using a gift card or wire service. Remember, the IRS will physically mail you a letter as a means of first contact. And the IRS will never call you to demand an immediate payment.
- **Filing a fraudulent tax return.** Identity thieves often file a tax return using your Social Security number before you do. So consider filing your tax return as quickly as you can to beat identity thieves at their own game.
- **Phishing schemes.** Be on the lookout for unsolicited emails, texts and social media posts that prompt you to share personal and financial information. These messages often contain viruses, spyware or other malware that could infect your electronic devices.

Common signs of ID theft

Here are some common signs of identity theft according to the IRS:

- In early 2023, you receive a refund before filing your 2022 tax return.
- You receive a tax transcript you didn't request from the IRS.
- A notice that someone created an IRS online account without your consent.
- You find out that more than one tax return was filed using your Social Security number.

Other signs of identity theft include:

- Unexplained withdrawals on bank statements.
- Mysterious credit card charges.
- Your credit report shows accounts you didn't open.
- You are billed for services you didn't use or receive calls about phantom debts.

Remember, the IRS will physically mail you a letter as a means of first contact...the IRS will never call you to demand an immediate payment.

What you can do

If you discover that you're a victim of identity theft, consider taking the following action:

- **Notify creditors and banks.** Most credit card companies offer protection to cardholders affected by ID theft. If your ATM or debit card is stolen, report the theft immediately to avoid dire consequences.
- **Place a fraud alert on your credit report.** Contact any one of the three major credit reporting agencies—Equifax, Experian or TransUnion—to request a fraud alert. This covers all three of your credit files.
- **Report the theft to the Federal Trade Commission (FTC).** Visit [identitytheft.gov](https://www.ftc.gov) or call 877-438-4338. The FTC will provide a recovery plan and offer updates if you set up an account on the website.
- **Please call if you suspect any tax-related identity theft.** If any of the previously mentioned signs of tax-related identity theft happens to you, please call to schedule an appointment to discuss next steps. ♦

IRS Update

Taxpayers encouraged to look at paycheck withholding heading into 2023

The IRS reminds taxpayers that late 2022 and early 2023 is a great time to look at your paycheck's tax withholding amounts. Various life events in the preceding 12 months can potentially lead to a taxpayer owing a different amount of taxes in 2023 than they owed in 2022.

Taking a fresh look at your withholdings can determine if you have too much withheld and whether an adjustment would put more cash in your pocket. If not enough is being withheld, it could lead to an unexpected tax bill when filing your tax return.

Max amount of Social Security taxes you'll have to pay spikes due to inflation

The maximum amount of Social Security taxes you'll have to pay in 2023 is \$9,932.40, an almost 10% jump from the \$9,114.00 maximum amount in 2022.

The amount of taxable earned income subject to the 6.2% Social Security tax rate (12.4% for self-employed workers) is \$160,200 in 2023, up from \$147,000 in 2022.

The good news is that Social Security benefits will also see its biggest increase in almost 40 years. Average retirement benefits starting January 2023 is \$1,827 per month, up from \$1,681 per month in 2022.

Visit ssa.gov/myaccount to find out more about your Social Security account.

Interest rates increase for fourth quarter of 2022

Interest rates for the fourth quarter in 2022 will increase compared to last quarter. These rates include: 6% for overpayments (5% for corporations); 3.5% for the portion of a corporate overpayment over \$10,000; 6% for underpayments and 8% for large corporation underpayments. ♦

Raising a financially savvy child

If you have children or grandchildren, you have an opportunity to jump-start their journey to becoming financially responsible adults. Here are some suggestions to help:



Preschool. Start by using dollar bills and coins to teach them what the value of each is worth. Even if you don't get into the exact values, explain that a quarter is worth more than a dime and a dollar is worth more than a quarter. From there, explain that buying things at the store comes down to a choice based on how much money you have (you can't buy every toy you see!). Also, get them a piggy bank to start saving coins and small bills.



Grade school. Consider starting an allowance and developing a simple spending plan. Teach them how to read price tags and do comparison shopping. Open a savings account to replace the piggy bank and teach them about interest and the importance of regular saving. Have them participate in family financial discussions about major purchases, vacations and other simple money decisions.



Middle school. Start connecting work with earning money. Start with activities such as babysitting, mowing lawns or walking dogs. Open a checking account and transition the simple spending plan into a budget to save funds for larger purchases. If you have not already done so, now is a good time to introduce the importance of donating money to a charitable organization or church.

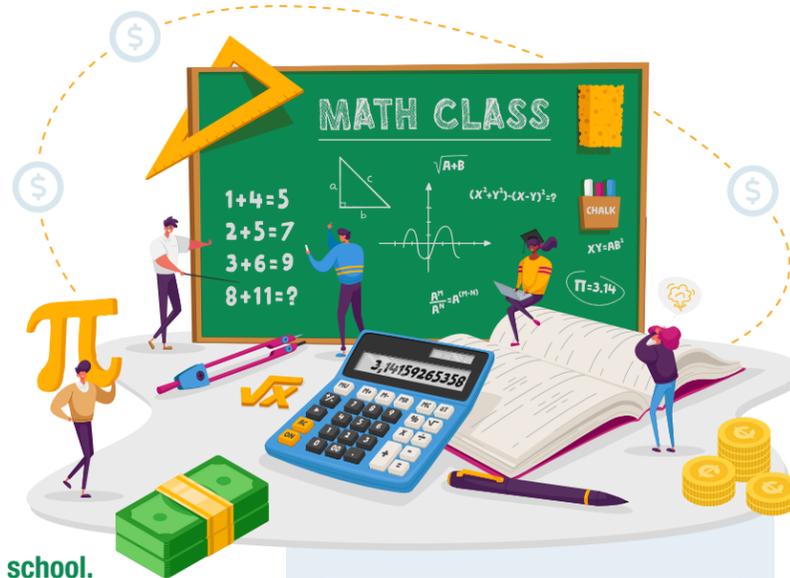


High school. Introduce the concept of net worth. Help them build their own by identifying their assets and their liabilities. Work with them to get a part-time job to build work experience, or to start a small business. Add additional expense responsibility by transferring direct accountability for things like gas, lunches and the cost of going out with friends. Introduce investing by explaining stocks, mutual funds, CDs and IRAs. Talk about financial mistakes and how to deal with them when they happen by using some of your real-life examples. If college is the goal after high school, include them in the financial planning decisions. Tie each of these discussions into how it impacts their net worth.



College. Teach them about borrowing money and all its future implications. Explain how credit cards can be a good companion to a budget, but warn them about the dangers of mismanagement or not paying the bill in full each month. Discuss the importance of their credit score and how it affects future plans like renting or buying a house. Talk about retirement savings and the importance of building their retirement account.

Knowing about money — how to earn it, use it, invest it and share it — is a valuable life skill. A financially savvy child will hopefully lead to a financially wise adult. ♦



Ideas to improve your personal cash flow

- ✓ **Identify your challenges.** See if you have months where more cash is going out than is coming in to your bank account. Try to balance these known high-expense months throughout the course of the year.
- ✓ **Build a reserve.** If you know there are challenging months, project how much additional cash you will need and begin to save for this in positive cash months.
- ✓ **Cut back on annuities.** See what monthly expense drivers are in your life. Can any of them be reduced? Can you live with fewer cell phone add-ons? How about cutting costs in your cable bill? Is it time for an insurance review?
- ✓ **Shop your current services.** Some of your larger bills may create an opportunity for savings. This is especially true with home and car insurance.

Tax Calendar

January 17, 2023

- ☐ Due date for the fourth installment of 2022 individual estimated tax.

This newsletter is issued quarterly to provide you with an informative summary of current business, financial and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be easily summarized. For details and guidance in applying the tax rules to your individual circumstances, please contact us.