



Tax Matters

January 2023

Tax Time

Hello:

We are hoping this message finds your family, friends, and you safe and well. The year 2022 was a very challenging year for so many of us. We're praying that this new year brings us closer to our normal.

BYB is hoping to provide tax preparation services to you again this year. We have four alternatives for submitting your tax documents.

1. Postal mail to our corporate address at 333 Westchester Ave, Suite S201 White Plains, NY 10604
2. Email documents in PDF format to Philip@thebyb.com
3. Drop off to office or security desk in our lobby in sealed envelope. Please let us know when you leave it.
4. Make an appointment with our receptionist at 914-761-7380

When the returns are complete, we will schedule a ZOOM or telephone call to review the returns together or, if you prefer, you may make an in office appointment by calling and scheduling.

We are hoping to see you again this year. Call us at 914.761.7380 or email Myra@TheBYB.com to schedule an appointment.

Sincerely,

The BYB Team

Gather And Organize Tax Records

Having your tax records organized makes preparing a complete and accurate tax return much easier! Beginning in January, you will likely start to receive the forms we need to properly complete your tax return. Once you have received your documents, first give them a review to make sure they are correct and contact the sender if there are any discrepancies. Remember, even a simple misspelling can cause a flag with your tax return. Inspect all your documents carefully. Some of the forms you will need to look out for include:

Forms W-2 from your employers

Forms 1099 from banks, issuing agencies, dividends, pension distribution, annuity, or retirement plans.

Form 1099-K, 1099-MISC, W-2 or other income statements for gig economy workers and Form 1099-INT for interest received

Other income documents and records of virtual currency transactions

Form 1098 from your mortgage lender

Form 1098-C for any large-scale charitable donations to a tax-exempt organization

Form 1098-E/T - for tuition paid or student loan interest paid

Receipts of expenses for medical bills, charitable contributions, retirement contributions, educational expenses, childcare expenses, etc.

Business Expenses – if you are a business-owner or self-employed, be sure that you also collect your business expenses – receipts, invoices, mileage logs, etc.

These income documents are very important – in addition to ensuring that you comply with your legal obligation as a Taxpayer to report all income – these documents also help determine your eligibility for deductions or credits

Start Off on the Right Foot for the 2023 Tax Year

Individuals and small businesses should consider various ways of starting off on the right foot for the 2023 tax year.

W-4 Updates – If you are employed, then your employer takes the information from your Internal Revenue Service (IRS) Form W-4 and applies it to the IRS's withholding tables to determine the amount of income tax to withhold from your wages in each payroll period. If your 2022 refund or balance due turns out not to be the desired amount, you may want to consider adjusting your withholding based on your projected tax for 2023.

W-9 Collection – If you are operating a business, then you are required to issue a Form 1099-NEC to each service provider to which you have paid at least \$600 during a given year. It is a good practice to collect a completed W-9 form from every service provider (even if you are paying less than \$600), as you may use that provider again later in the year and may have difficulty getting a W-9 after the fact—especially from providers that do not plan to report all of their income for the year.

Estimated Tax Payments – If you are self-employed or typically owe taxes when you file, then you should consider prepay each year's taxes in quarterly estimated payments by sending 1040-ES payment vouchers or making electronic payments. For the 2023 tax year, the first three payments are due on April 18, June 15, and September 15, 2023, and the final payment is due on January 16, 2024. Generally, these payments are based on the prior year's taxable income; if you expect any significant changes in either income or deductions relative to the previous year, please contact this office for help in adjusting your payments accordingly.

Charitable Contributions – If you marginally itemize your deductions, then you can employ the bunching strategy, which involves taking the standard deduction one year but itemizing your deductions in the next. However, you must make this decision early in the year so that you can make two years' worth of charitable contributions in the bunching year.

Retirement-Plan Contributions – Review your retirement-plan contributions to determine whether you can afford to increase your contribution amounts and to make sure that you are taking full advantage of your employer's contributions to the plan.

Self-Employed Business-Vehicle Mileage – Generally, vehicles with business use also have some amount of nondeductible personal use in a given year. It is always a good practice to record a vehicle's mileage at the beginning and at the end of each year so as to determine its total mileage for that year. The total mileage figure is then used when prorating the personal- and business-use expenses related to that vehicle.

College-Tuition Plans – Contribute to your child's Section 529 plan as soon as possible; the funds begin accumulating earnings as soon as they are in the account, which is important because the student will likely begin using that money at age 18 or 19.

Remember - Only a few of the tax-related actions that you take during a year will benefit yourself or others. The most important of these actions is keeping timely and accurate tax records; for businesses in particular, this is of the utmost importance. Those who have well-documented income and expense records generally come out on top when the IRS challenges them.

Planning On Buying a New Electric Vehicle and Claiming a Tax Credit? Better Read This First

Although the credit for purchasing a new electric vehicle can still be as much as \$7,500, Congress has added some new stringent qualifications as to which vehicles qualify, and for the first time Congress has limited who qualifies for the credit by barring the credit to higher income taxpayers.

But first a little background. Prior to this change, a vehicle qualifying for the credit needed only to be a 4-wheel vehicle, with a minimum battery capacity of 5 kilowatt hours and a gross weight of less than 14,000 pounds. There was also a manufacturer limit of 200,000 units, after which the credit phased out over the subsequent four quarters. There were no qualification requirements for the purchaser of the vehicle.

New Qualifications - Under the new law, starting in 2023 the vehicle and the buyer must meet far more stringent requirements for a taxpayer to qualify for the clean vehicle tax credit.

Purchaser's Income Limit - No credit is allowed for any tax year if the lesser of the modified adjusted gross income (MAGI) of the buyer for the:

Married Filing Joint or Surviving Spouse - \$300,000

Head of Household - \$225,000

Others - \$150,000

Vehicle Qualifications - To qualify, the vehicle must:

1. Be a **4-wheel vehicle**.
2. Be a **Street Vehicle** that was manufactured primarily for use on public streets, roads, and highways.
3. Have a **Minimum Battery Capacity** of 7 kilowatt-hours.
4. Be **acquired for Original Use** by the taxpayer, not preowned.
5. Have had its **Final Assembly** in North America, which includes the 50 states, the District of Columbia, and Puerto Rico, Canada, and Mexico.
6. Meet the **MSRP** requirement - The manufacturer's suggested retail price (MSRP) cannot exceed:

\$80,000 for vans, SUVs, and pickups

\$55,000 for other vehicles

Luckily for a buyer the dealer must provide a report that certifies the vehicle meets these requirements by specifying the amount of credit the vehicle qualifies for.

Frequently Asked Questions

When does tax season begin?

Traditionally, the IRS starts accepting tax returns during the last week of January. So, early tax filers who are 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.

Can I deduct business trips and other miscellaneous business deductions?

The 2018 new tax law took away the deductions for miscellaneous un-reimbursed employee expenses. They are still deductible at the NYS level. However, NYS is very aggressive with auditing these deductions.

Can I deduct my student loan interest payments?

You can deduct up to \$2,500 interest you pay on a student loan. The deduction is claimed as an adjustment to income so it is allowed even if you don't itemize. However, you cannot deduct the interest if you are a dependent of another taxpayer or use the married filing separately filing status. This deduction is also subject to a AGI limit.

I own a home but am considering purchasing a condo in Florida as a second residence. What can I deduct for the condo?

The mortgage interest and real estate taxes are deductible on a second home, just as they are on your main home. However the rules are different if you are planning to rent out the condo. Also, remember that you are still subject to the \$10,000 limit for state and local taxes.

During 2022, I started a small business to supplement my income. Do I need to include on my returns?

Many of us worked side businesses in 2022. Some drove for Uber. Whether you made a profit or loss, it should be included in your returns. Summarize the income and list the expenses. If you drove Uber, how many miles did you drive? They are worth 56 cents per business mile as a business deduction against the income.

Are home repairs deductible?

Generally, home repairs are not deductible. Major repairs could add to your basis in your home. New carpet and a new roof are examples of major repairs. These will come into play if and when you sell the home.

I was under the impression that a Dependent Care Benefit Plan would benefit me, not penalize me with an increase in taxes. How can my employer say they provided a benefit in the total amount of \$5,000 in W-2, Box 10 when I had \$5,000 in wages set aside for dependent care benefits?

The actual mechanism for this type of plan is an agreement to voluntarily reduce your salary in return for an employer-provided fringe benefit. These plans must be set up this way because you have a choice of whether to receive the cash wages or the benefits, which would make the benefit taxable to you. Therefore, the benefits are actually employer provided or funded. You are receiving a tax benefit because you are not paying taxes on the money that is set aside. But you must use the dollars in childcare and reflect on your tax returns the expenditure.

Can I make IRA contributions for my child?

You can help your child jump-start his or her retirement savings by providing the funds for an IRA contribution. As long as your child has earned income (e.g., from a part-time or summer job), you can make a gift of the contribution amount to your child.