

**ROBERT ROWLAND CPA  
ANNUAL TAX LETTER**

**TAX YEAR 2022**

Wow, what a year 2022 was. Hopefully, with a minimal effort on your part, we can get those returns accurately prepared and out of the way.

Our address for mail only is 4960 S Gilbert Road, Suite 1-611, Chandler, AZ 85249. My phone numbers remain the same, 520-319-0077 (Fax 520-319-0076) My email address is [Robert@RowlandTax.com](mailto:Robert@RowlandTax.com)

**Discount and Surcharges** Last tax season I had too few clients in January and February and too many clients in late March and April. For those of you who arrived early in the tax season, I sincerely thank you. To encourage clients to not only be more organized but also to get their information to me early in the year I have the following incentives:

1. There will be a **\$25 surcharge** for any client who does not make an attempt to fill out the portions of the **tax organizer** that pertains to them. The tax organizer can be found on my website, RowlandTax.com, under the "Tax Organizer" tab.
2. There will be a **\$25 discount** for any client who gets me substantially all of their personal tax **information prior to February 20<sup>th</sup>**. I recognize that you may not have all the business K-1's or the final brokerage statements by February 20<sup>th</sup>, but you can provide to me everything else to qualify for this discount.
3. There will be a **\$25 surcharge** for any client who sends to me the bulk of their **information between March 20<sup>th</sup> and April 15<sup>th</sup>**.
4. There will be a **surcharge equal to 50% of the normal preparation fees** for clients who get to me their **information between October 1<sup>st</sup> and October 15<sup>th</sup>**.

**Password For Tax Returns Emailed:** As a reminder, the password to get into the tax returns emailed to you from this office is the first four letters of your last name followed by the last five numbers of your social security number (no caps and no spaces).

**Changes for 2022**

The standard business mileage rate for employers for 2022 was 58.5 cents per mile. For the final 6 months of 2022, the standard mileage rate for business travel was 62.5 cents per mile. Keep in mind there is no business mileage deduction for employees. Rather an employee

should submit mileage reports to their employer and get reimbursed.

The credit for energy savings doors, windows and insulation subject to a \$500 lifetime limitation was extended through 2022.

The solar energy credit went back up to 30%.

The gift tax exemption increased from \$15,000 per person per year to \$16,000 per person per year.

Non-bank payment systems such as Paypal and Venmo initially were required to send to taxpayers and the IRS information as to the dollar amount of use of the system (Form 1099-K). In late 2022 the IRS gave a year delay on this requirement.

The mortgage insurance premium deduction went away in 2022

The charitable deduction allowed taxpayers who did not itemize went away in 2022

The large bump in the child tax credit we saw in 2021 went away in 2022.

The maximum amount for social security contributions was \$147,000.

To get around the \$10,000 cap on the itemized deduction for state and local taxes, Arizona (and 20+ other states) have adopted a state pass through entity tax on S-Corporations and Partnerships. Under this system the state tax on the business profits is assessed at the business level where there is no cap on the deduction which then frees up the deduction for other state and local taxes on the individual tax return Schedule A itemized deductions.

The maximum Arizona tax rate decreased to 2.98%

The Arizona form AZ-SBI that we saw in 2021 is no longer advantageous. However for those who made estimated tax payments towards the 2022 AZ-SBI they will need to file a zero 2022 form AZ-SBI to get a refund of those estimated tax payments.

### **Changes for 2023**

The IRS is in the process of hiring 87,000 new agents. Organized and accurate tax records become even more important.

Non-bank payment systems such as Paypal and Venmo initially are required at then end of 2023 to send to taxpayers and the IRS information as to the dollar amount of use of the system (Form 1099-K).

The credit for energy savings doors, windows, insulation, etc has increased to 30% of its cost. However there are several limitations. Qualified energy property - \$600 credit per year, qualified exterior windows and skylights - \$600 credit per year, qualified exterior doors - \$250 credit per year per door up to \$500 total credit, primary residence home energy audit - \$150 credit per year, qualified heat pump - \$2,000 credit per year. Primary residence and vacation home both qualify.

**A credit for qualified battery storage technology.**

For 2023 the credit for the purchase of a clean energy vehicle is based on several things \$3,750 for qualified critical minerals, \$3,750 for qualified battery components, final assembly in North America and both a taxpayer income limitation and a vehicle cost limitation. Once again the credit is available for Tesla and General Motors qualified vehicles.

The clean energy vehicle credit applies to qualified used vehicles if purchased through a dealer. Again there is a taxpayer income limitation. The credit, if applicable, would be the lesser of \$4,000 or 30% of the cost of the vehicle. Only vehicles costing less than \$25,000 qualify. And the VIN number must be notated on the tax return.

### **Changes for 2025**

For the home energy savings credit the Product Identification Number must be reported on the tax return.

**Arizona Credits** There are several Arizona credits (dollar for dollar reduction of the Arizona tax) for specific contributions. To qualify as a credit on the 2022 Arizona return the contributions need to be made either during the 2022 calendar year or by April 15, 2023. However, the credit can only apply against the Arizona income tax liability. Any unused credit carries forward and can be applied in future years. The most popular credits are:

1 **Qualified charitable organizations.** Maximum amount is \$400 for a single person and \$800 for a married couple. For a list of qualifying organizations see [https://azdor.gov/sites/default/files/media/CREDITS\\_2022\\_qco.pdf](https://azdor.gov/sites/default/files/media/CREDITS_2022_qco.pdf)

2 **Qualified Foster Care Organizations.** Maximum credit is \$500 for a single person and \$1,000 for a married couple. For a list of qualifying organizations see [https://azdor.gov/sites/default/files/media/CREDITS\\_2022\\_qfco.pdf](https://azdor.gov/sites/default/files/media/CREDITS_2022_qfco.pdf)

3 **Public school extracurricular activity.** Maximum credit is \$200 for a single person and \$400 for a married couple.

4 **Private school scholarship organization.** Maximum credit is \$1,243 for a single

person and \$2,283 for a married couple. For a list of qualifying organizations see [https://azdor.gov/sites/default/files/REPORTS\\_sto-c-list.pdf](https://azdor.gov/sites/default/files/REPORTS_sto-c-list.pdf)

**Dependents Documents** Unfortunately the IRS experiences a great amount of fraud in the area of dependents and the related credits that are available. As your tax preparer I am being required to get from you proof documents such as copies of the dependent's birth certificates and dependent's social security card.

**Partnership Investments in an IRA** Investment advisers at times have advised clients to invest their IRA money in limited partnerships. These investments are being sold as a way to increase returns, diversify the portfolio and increase liquidity (and are high commission products). The trap is that most limited partnerships operate businesses and borrow money, and most business and debt-financed income is subject to a flat 37% tax rate when received by an IRA. If you own limited partnership interests in your IRA check with the investment adviser to see if there is unrelated business income.

**Quarterly Estimate Tax Payments** The most common post-filing issue the IRS has with my clients is properly accounting for quarterly estimated tax payments. Please review your quarterly estimated tax payment records carefully and verify those payments by seeing if they cleared on your bank statement.

**Fees and Scope of Services** We will assist you in the preparation of the federal and state individual income tax returns based on the information which you provide. We will charge a reasonable fee generally based on my current fee schedule for returns and schedules. You can find that fee schedule on my website, RowlandTax.com. Extraordinary work on a return or any schedule or additional advice will be charged at an hourly rate

Fees and rates can change without notice. If you are unable to pay the fees in full when the return is completed, please make prior arrangements.

**Protection Plus** We charge an 8% fee for audit representation by Protection Plus, a company which helps taxpayers on their personal returns with audits and tax inquiries. Protection Plus provides the following services:

1. Assistance on your 2022 personal returns for federal audits, state audits and inquiries.
2. Assistance in tax identity theft issues.

**Privacy Policy** For current and former clients, we do not disclose any nonpublic personal information obtained in the course of our practice except as required or permitted by law. In order to guard your nonpublic personal information, we maintain physical, electronic, and procedural safeguards that comply with our profession standards.

**Tax Planning** Tax planning may prove to be very helpful. However, due to time constraints, February, March and April are reserved for tax preparation and is not a good time for us to explore tax planning.

**Investment Advice** I am not a financial investment expert and not qualified to provide investment advice regarding the suitability of specific investments for clients. For that advice you need to turn to a competent and trusted financial advisor. And any brokerage statements and other information on financial investments being provided to me are solely for the orderly preparation of your income tax returns. Please keep in mind our services are not designed to and should not be relied upon to detect fraud, theft or illegal acts of investment advisors or others. Naturally if we do notice any such activity we will bring it to your attention.

**Gift Tax Returns** In addition to income taxes you may be required to file a gift tax return and in very rare circumstances pay gift taxes. A gift tax return generally needs to be filed if you made gifts of more than \$16,000 to any one individual during the calendar year. Please let me know if this is your situation.

**Estate Tax Planning** If the value of your assets (including life insurance) \$12,060,000 per person (set to go back to \$5 million each in 2025) then upon you or your spouse's death there is the possibility of a Federal estate tax. The estate tax is up to 40% of the fair market value of assets (and life insurance on your life) at the time of your death in excess of your debts and the \$12,060,000 exemption amount. Also there are several states which have a state estate tax. (fortunately not Arizona.) There are several estate planning techniques legally available to reduce the possible estate tax such as lifetime gifts, charitable contributions, and trusts. Let me know if you want to explore estate tax planning.

**IRS Online Account Information** The IRS has expanded the app that allows you to view your account on line for:

1. Your payoff amount
2. The balance for each tax year for which you owe.
3. Up to 18 months of your payment history
4. To get a transcript (See <https://www.irs.gov/individuals/tax-return-transcript-types-and-ways-to-order-them>)

To do so you will need to register for an account. (See <https://www.irs.gov/individuals/secure-access-how-to-register-for-certain-online-self-help-tools>)

I also see that the Department of Treasury uses ID.me to access IRS info. See <https://api.id.me/en/session/new>. Note: I have no experience with ID.me.

**IRA Planning** Generally we have available two types of IRA's: traditional IRA's and ROTH

IRA's. Because of the tax advantages, I encourage you to consider one or the other.

The tax advantage for a **traditional IRA** is a deduction on your tax return. For example if you are in the 25% tax bracket a \$5,000 contribution to a traditional IRA will result in a savings of \$1,250 in taxes. However, down the road when you withdraw any monies from the traditional IRA it will be taxed. Not only is there a wide span from the time of the tax savings to the tax cost on withdrawal, but also one can hope that upon retirement their tax bracket will be lower. There are situations where taxpayers retire into a zero or minimal tax bracket. For them there is a tax savings during the years the monies were put into the account and little or no tax when the monies are withdrawn. However, IRA distributions upon retirement could possibly cause more of the Social Security benefits to be taxed.

**ROTH IRA's** tax advantage is generally the withdrawals are not taxed. This is not only the withdrawal of amounts originally contributed to the ROTH IRA but also any earnings in the account. The downside is when the monies are first put into the ROTH IRA there is no deduction. For example, if \$5,000 is put into the ROTH IRA (without a deduction) and it grows to \$15,000 before it is withdrawn from the account there are no taxes owed on the full \$15,000. In other words there is a permanent avoidance of taxes on the \$10,000 in earnings.

Contributions to both can be made within the year in question or by April 15<sup>th</sup> the next year. Contributions are subject to three limitations. First no more than \$6,000 per taxpayer per year can be contributed to either or a combination of the two. That limitation increases to \$7,000 for any taxpayer age 50 or older. Second, a taxpayer cannot contribute more than the amount of the wages and/or self-employed profit made by either themselves or their spouses. Third, there are restrictions for taxpayers with income of more than \$122,000 (single) or \$193,000 (married filing jointly). Note: Wages of a working spouse can support an IRA contribution into an IRA account for the non-working spouse. Note: Older taxpayers can still contribute to the IRA if they meet the three conditions I describe above.

Both traditional IRA's and ROTH IRA's have potential penalties if the monies are withdrawn prior to age 59 1/2 .

Taxpayers must start taking required minimum distributions ("RMD") from the traditional IRA's starting in the year that a taxpayer reaches age 72 . (Age 73 for 2023) If not taken, there is a fairly stiff penalty. For that first year the RMD is 1/27.4 of the amount in the traditional IRA account(s). There is no RMD requirement for ROTH IRA's.

Monies can be "rolled over" from most retirement accounts to a traditional IRA without a tax cost. Also, monies can be "rolled over" from a traditional IRA to a ROTH IRA but in this case generally with a tax cost.

**Estate Plans** For those of you who have Wills and/or Trusts there are six questions worth asking each year.

1. Is there a change in the family situation?
2. Is there a significant change in the size of the estate?
3. Is newly acquired property properly titled?
4. Are beneficiary designations current?
5. Is there a business succession plan in case of death or disability?
6. Are estate documents reviewed annually?

**Planning for College Costs** No question colleges are now very expensive. In order to keep your children or grandchildren from having to be burdened by a substantial amount of student loan debt, you need to consider a college savings program starting when they are very young. For that program you may want to consider a qualified tuition program under code section 529 ("529 plan") There is at least one plan set up in every state and you are given a broad spectrum of investment possibilities. (see [www.savingforcollege.com](http://www.savingforcollege.com)) The tax advantage is that the income generated within the 529 plan will not be taxed if the monies are ultimately used for qualified education expenses. Unlike traditional IRA's there is no deduction for contributions to a 529 plan (except for an up to \$2,000 deduction (\$4,000 for married filing jointly on the Arizona return)

A most interesting characteristic is that the monies in the account can be withdrawn by the parent or grandparent setting up the account instead of going to the student in which case the income earned in the account is taxable and possibly subject to a 10% penalty.

**Planning for Social Security Benefits** Numerous questions arise when one heads into retirement. Is it better to take Social Security benefits at age 62? Age 66? Age 70? Is it better for the spouse to collect his or her own benefits or take 50% of the other spouse's benefit? Through the magic of the internet you can now find answers. The first step is to set up access to and review one's account at the Social Security Administration. That web address is [ssa.gov/retire/estimator.html](http://ssa.gov/retire/estimator.html)

Then analyze your various options using an on line calculator such as

[aarp.org/work/social-security/social-security-benefits-calculator.html](http://aarp.org/work/social-security/social-security-benefits-calculator.html)

[maximizemysocialsecurity.com](http://maximizemysocialsecurity.com) (\$40 annual fee)

[SocialSecuritySolutions.com](http://SocialSecuritySolutions.com) (various fees)

**Saving Tax Records** We are often asked how long one needs to save tax records. The IRS has up to 3 years to audit your return; the state of Arizona 4 years. If one under-reports one's income by more than 25% (including the misstatement of basis in stocks sold) the IRS audit period expands to 6 years. Also consider that for non-tax reasons the statute of limitations for litigation in which to be sued for a debt is up to 6 years. Therefore, we recommend that you keep

supporting receipts and documents to your returns for at least 6 years. We also recommend that you keep copies of the tax returns indefinitely. Also, any documents to substantiate carryover items such as capital loss carryovers need to be kept for 6 years after the year the carryover is used up.

However there are documents which need to be saved for more than six years. Keep the receipts which back up any items being depreciated on a return since those remain subject to audit. Also, keep all the receipts on the cost of stocks, bonds, real estate (including improvements), or any other investments which you still own. And also if you have a year which generates a net operating loss ("NOL") and that NOL is being carried forward, keep all of the tax documents for that NOL year until 6 years after the NOL is used up.

Generally (as a backup to your records) we keep electronic copies of your tax returns and records for six years at which time they are destroyed. Keep in mind that we keep only limited electronic copies, if any, of your W-2 forms, 1099 forms, or other supporting documents.

**Preliminary Estimate** For some of my clients I provide a preliminary estimate of their taxes at the time of our initial contact. However, the completed returns can vary substantially from the preliminary estimate due to many factors including:

- a. **Use of estimates** on complex calculations such as the amount of taxable social security, Alternate Minimum Tax (AMT), phase out rules based on income, depreciation, and business vehicle expense calculations.
- b. **Additional information** provided after the preliminary estimate is made.
- c. **Calculation errors** that can occur when difficult computations are made rapidly and without the benefit of a double check.

### **Tax Scams**

Taxpayers should never provide personal information, financial or otherwise, to suspicious websites or strangers calling out of the blue.

Below are five things scammers often do that the real IRS would never do:

- **Angrily demand immediate payment over the phone, nor will the agency call about taxes owed without first having mailed you a bill.**
- **Threaten to bring in local police or other law-enforcement groups to have you arrested for not paying.**
- **Demand that you pay taxes without giving you the opportunity to question or appeal the**



amount they say you owe.

- Require you to use a specific payment method for your taxes, such as a prepaid debit card.
- Ask for credit or debit card numbers over the phone.

If you think you are a victim of a scam call the IRS at 1-800-829-1040. There the IRS worker can help you determine the balance, if any, that you owe. If you know you don't owe taxes and want to assist the government in shutting the scams down, you can report the incident to the Treasury Inspector General for Tax Administration (TIGTA) at 1-800-366-4484.

- If you've been targeted by any scam, be sure to contact the Federal Trade Commission and use their FTC Complaint Assistant at [FTC.gov](http://FTC.gov). Please add "IRS Telephone Scam" to the comments of your complain

Identity theft-related tax fraud Efforts by the IRS to cut down identity thefts issue has proven to be successful. In 2015 there were 677,000 identity theft affidavits received from taxpayers. In 2018 that number decreased to 199,000. Still a large number. In this case the scammer one way or another has gotten hold of your social security number. He or she then files a fake tax return using your social security number and has a refund directly deposited to their bank account. Then when you file your return, it is rejected by the IRS. For you to then establish with the IRS that yours is the correct return requires you to call the IRS Identity Protection Specialized Unit at 1-800-908-4490 and also to file with the IRS the Identity Theft Affidavit, Form 14039. I strongly recommend that you fax to the IRS (fax number 855-807-5720) the affidavit, Form 14039, anytime your social security number has been compromised. That form can be found on the IRS website, [www.irs.gov](http://www.irs.gov). Fortunately you will not be held responsible for the money erroneously paid by the IRS to the scammer.

Another scam is that you get a call from someone claiming to be from the IRS. They tell you that the IRS has lost your return and asks you to mail them another copy. If you do so, they now have your personal information.

Another scam involves a bogus phone call from an IRS impersonator demanding payment for a non-existent tax they call the "federal student tax" and threatening to report the student to the police.