Tax Tidbits

Volume 24, Issue 2 November 2022

New Changes to the Electric Vehicle Credit

If you are in the market for an electric vehicle, you should review the new rules to help you maximize the credit that you are allowed. President Biden signed into law the Inflation Reduction Act of 2022 on August 16, 2022, which included changes to the credit available for electric vehicles. To qualify for the electric vehicle credit, final assembly of the vehicle must take place in North America.

Under the new rules, the amount of the credit will be based on two separate requirements, each based on where the vehicle's battery is sourced:

- Taxpayers get a $3,750 credit for meeting the critical minerals requirement, which requires that a minimum percentage of the minerals contained in the battery be sourced in the United States or a country with which the United States has a free trade agreement in effect.
- Taxpayers also can get a $3,750 credit for satisfying the battery component requirement, which requires that a minimum percentage of the value of the components of the battery be manufactured or assembled in North America.

Taxpayers can satisfy either or both requirements for either a $3,750 credit for meeting one of the requirements or a $7,500 credit if both requirements are met. Under the previous rules, the base amount of the electric vehicle credit is $2,500 per vehicle. The allowable credit increases to $7,500 per vehicle based on a formula which increases the credit by $417 for every kilowatt hour of battery capacity in excess of five.

Effective as of January 1, 2023, the manufacturer limitation is going away. Under the manufacturer limitation, once a manufacturer had sold 200,000 electric vehicles, a taxpayer's ability to take a tax credit for vehicles produced by that manufacturer began to phase out. Taxpayers are currently prevented from taking the electric vehicle credit for automobiles manufactured by General Motors and Tesla. Starting at the beginning of 2023, taxpayers will be able to take the credit for GM and Tesla vehicles once again.

Also beginning January 1, 2023, vehicles will not be eligible for the credit if they exceed the Manufacturer's Suggested Retail Price (MSRP) limit: $80,000 for vans, pickup trucks and sport utility vehicles; $55,000 for other vehicles. If you are looking at a higher-end electric vehicle, you need to act by the end of December. Unfortunately, the manufacturer limitation does not go away until January 1, so you will not be able to claim the credit for higher-end GM and Tesla vehicles that exceed the MSRP limits.

January 1, 2023 the electric vehicle credit will be limited based on your modified adjusted gross income (MAGI). MAGI is adjusted gross income (AGI) with adjustments for income received from U.S. territories. For most taxpayers, MAGI will be equal to AGI. You may not take the credit if your MAGI exceeds the threshold amount which is:

- For married taxpayers filing a joint return or a surviving spouse, $300,000.
- For taxpayers filing as head of household, $225,000.
- For all other taxpayers (single, married filing separately), $150,000.

The above amounts are not adjusted for inflation. If your MAGI exceeds the applicable amount, you should buy the electric car before the first of the year.

Elizabeth A. Zarnoch, EA
Vice President of Tax and Business Services

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Getting Ready for the 2022 Tax Season

The 2022 tax season is fast approaching. Getting ready now will help your preparer hit the ground running when you drop off your documents. If you are unsure what to look for, give us a call and request a tax organizer. You can use the tax organizer as a checklist to help collect and organize all of the documents we will need to prepare your taxes. When you have everything collected and are ready to drop off your documents, there is no need to set up an appointment. Just stop by during business hours and hand them directly to us or put them in our drop box after hours. Not able to get the information to us by hand? No problem! You can mail or ship them in and we will contact you to let you know when we receive them. Want to save on gas or postage? We also have a digital option that is fast, easy and green. All you have to do is upload your documents to the secure client vault on our website, www.valicenti.com, which allows us to get everything instantaneously. If you are not sure if you have a vault account, give us a call. We can help you find out or set one up for you. Once your return is completed and ready to be reviewed, we will reach out to set up a time and day for a conference call or meeting with your preparer.

Trevor L. Welch
Receptionist

2023 Annual Inflation Adjustments

The Internal Revenue Service announced the tax year 2023 annual inflation adjustments for more than sixty tax provisions, including the tax rate schedules and other tax changes. The tax year 2023 adjustments described below generally apply to tax returns filed in 2024.

The tax items for tax year 2023 of greatest interest to most taxpayers include the following dollar amounts:

- The standard deduction for married couples filing jointly for tax year 2023 rises to $27,700 up $1,800 from the prior year.
- For single taxpayers and married individuals filing separately, the standard deduction rises to $13,850 for 2023, up $900.
- For heads of households, the standard deduction will be $20,800 for tax year 2023, up $1,400 from the amount for tax year 2022.

Marginal Rates for tax year 2023:

- The top tax rate remains 37% for individual single taxpayers with incomes greater than $578,125 ($693,750 for married couples filing jointly).
- 35% for incomes over $231,250 ($462,500 for married couples filing jointly);
- 32% for incomes over $182,100 ($364,200 for married couples filing jointly);
- 24% for incomes over $95,375 ($190,750 for married couples filing jointly);
- 22% for incomes over $44,725 ($89,450 for married couples filing jointly);
- 12% for incomes over $11,000 ($22,000 for married couples filing jointly).
- The lowest rate of 10% is for single individuals with incomes of $11,000 or less ($22,000 for married couples filing jointly).

Jessica M. Brenzo
Business Services Specialist

Mileage Rate Increase for the Remainder of 2022

In recognition of recent gasoline price increases, the IRS made a special adjustment for the final months of 2022. The standard mileage rate for business travel will be 62.5 cents per mile, up 4 cents from the rate effective at the start of the year. For travel from January 1 through June 30, 2022, taxpayers should use the standard mileage rate of 58.5 cents per mile. The optional business standard mileage rate is used to compute the deductible costs of operating an automobile for business use in lieu of tracking actual costs. This rate is also used as a benchmark by the federal government and many businesses to reimburse their employees for mileage. Midyear increases in the optional mileage rates are rare. The last time the IRS made such an increase was in 2011.

Jessica M. Brenzo
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Inadequate Service

National Taxpayer Advocate, Erin M. Collins, released her Annual Report to Congress on June 22, 2022. She stated, "There is no way to sugarcoat the year 2021 in tax administration. From the perspective of tens of millions of taxpayers, tax administration did not work for them." Some of the most serious problems listed in her report were the processing and refund delays, IRS recruitment and telephone and in-person service.

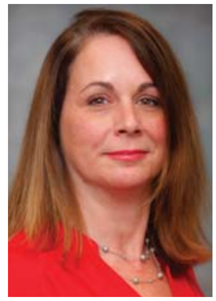
At the close of the 2021 filing season, the IRS had 35.3 million returns awaiting manual processing. As the IRS is preparing to begin the 2022 filing season, millions of unprocessed returns and millions of taxpayer correspondence will carry over as well. Many of the paper filed returns are receiving tax notices with penalties and tax assessments due to the IRS not processing the returns in a timely manner. Pre-pandemic processing times for refunds on paper filed returns were four to six weeks. Currently, processing times are ten months or more. The report states that the IRS would have to process over 500,000 Form 1040s per week to eliminate the backlog this year. This is double the amount that they currently process in a week.

The IRS phone service has gone from bad to worse. The report mentions that inadequate phone service disadvantages taxpayers and harms tax compliance. The IRS received about 73 million telephone calls during the past filing season; however, only about 10% of the calls reached an IRS employee. Nothing is more frustrating than to be on hold for hours and then to be disconnected.

The IRS states that they are working on fixing the issues. The Inflation Reduction Act allocated funds to help taxpayer services. Hopefully, we will see some improvement soon. Taxpayers cannot go through another season of inadequate service.

Elizabeth A. Zarnoch, EA
Vice President of Tax and Business Services

New Guidance for IRA Beneficiaries



The Internal Revenue Service (IRS) issued Notice 2022-53 on October. 7, 2022, providing individual retirement account (IRA) required minimum distribution (RMD) relief by waiving the excise tax (the 50% RMD penalty) for missed 2021 and 2022 inherited retirement account RMDs for beneficiaries subject to the SECURE Act 10-year payout rule.

Under proposed IRS regulations issued earlier this year, such IRA beneficiaries must instead fully draw down the account over a 10-year period and they must take RMDs in years one through nine if the account owner died after their own required beginning date. The notice also informed financial planners and their clients that they do not need to take distributions from such inherited accounts for 2021 or 2022 — essentially giving them a free pass for required minimum distributions while the final regulations are being worked out, with those regulations applying "no earlier than the 2023 distribution calendar year." Just because a beneficiary is not legally required to take a distribution this year, does not always mean they should not. It is best to discuss this with your tax preparer to determine which would be best for your individual needs.

The Notice does not affect lifetime RMDs for IRA owners who are unaffected by these rules. IRA owners subject to lifetime RMDs must still take them and are still subject to the 50% penalty for any RMDs that are missed. This RMD relief also does not apply to IRAs inherited by eligible designated beneficiaries or RMDs by beneficiaries who inherited before 2020. Eligible designated beneficiaries (EDBs) still get to use the stretch IRA, so this relief does not apply to them. Their RMDs must still have been taken in 2021 and for years after that.

Five classes of eligible designated beneficiaries:

1. Surviving spouses
2. Minor children of the account owner, until age 21 — but not grandchildren
3. Disabled individuals — under the strict IRS rules
4. Chronically ill individuals
5. Individuals older than or not more than 10 years younger than the IRA owner

Beneficiaries who inherited a Roth IRA do not need this relief because under the IRS proposed regulations, anyone who inherits a Roth IRA is deemed to have inherited it from someone who died before their required beginning date. This is because Roth IRA owners are not subject to lifetime RMDs. Roth IRA beneficiaries are still subject to the 10-year rule, but they will not have to take RMDs for years one through nine.

Amy M. Chacho
Business Services/Tax Specialist

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Please note that our Tax and Business Services Department, our Insurance Division and our Investment Advisors are available to answer any questions that you may have regarding the articles in this publication. We look forward to hearing from you.