



Jack Skehan & Associates

TAX PREPARATION

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Winter 2022 / 2023 Newsletter

Dear Friends:

We hope you have had a happy and healthy 2022. After a few years with a steady stream of changes to deal with the pandemic, we've seen a year of relative calmness in the tax world. We will highlight some of the old rules that have come back and new ones that did come about on both the Federal and State level. Thank you for your continued business. We look forward to working with you again this year.

Your Tax Appointment – Clients who usually have an in-office appointment with a tax professional will find a prescheduled date on the address page of this mailing. We can easily reschedule if the time / date no longer works for you. If there isn't a prescheduled appointment in this packet and you need one, please call us as soon as possible to get the best choice of open slots.

Since the pandemic there has been an increase in the number of clients who like meeting remotely or dropping off their tax information. When confirming your appointment, please let us know whether you prefer an in-person, drop-off, telephone or virtual (via "Microsoft Teams", using your PC/laptop, smart phone or tablet) appointment. These options allow us to work with clients who are more comfortable in a less public setting, don't drive, or who live outside of our geographic area.

If choosing the telephone or virtual option, we need your tax forms ahead of your appointment. They can be dropped off, mailed, sent by secure email (please call or email us for a secure link), or faxed. Please do not send documents with sensitive information in a non-secure email. Additionally, to cut down on identity theft, we need to see a current driver's license, military ID or state ID.

- We will pick up and deliver tax information from clients who have transportation issues and live within a reasonable proximity of our office, at no extra charge. We are not set up to prepare the tax return offsite.
- If you are not feeling well, we are happy to reschedule your in-person appointment, or you may choose to use another method to meet with us.

Appointment confirmation - Clients who confirm their tax appointment (in person, virtual or drop-off) by Saturday, January 28, 2023 will be entered into our annual drawing. Two winners will each receive a check for \$250. Call (207) 582-1040 or email Info@JackSkehan.com. Congratulations to last year's winners!

We are accepting a limited number of new clients and continue to offer a referral reward. You will earn a \$50 credit toward your 2023 tax preparation (the tax return we will prepare in 2024) for each new client referred, who has us prepare their tax return. Referral Coupons are enclosed. Thank you to all who sent clients our way this past year.

Tax Appointment Checklist & Questionnaire and our Engagement Letter – We encourage completing the questionnaire before coming to your tax appointment. Your effort may help reduce delays and fees for additional time. Each section includes a list of the forms / records needed to prepare that portion of your tax return, and is a reminder to gather records, note questions to ask your preparer; it may help us uncover areas for potential tax savings.

Please also read and sign the enclosed Engagement Letter. This contract between you and our firm describes each party's responsibilities and explains how we charge for our services.

Office Practice – We revised our policy regarding how long we keep clients' tax returns on file. We will retain your file for a minimum of 6 years after which time we reserve the right to destroy the file. We will continue to return all original documents to you and give access to a copy of your file up until that time at your request.

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What's New? Federal Changes

Child Tax Credit and Advance Child Tax Credit - For 2022 the Child Tax Credit returned to pre-pandemic amounts of \$2,000 per eligible child under age 17. Advance Child Tax Credit was not offered.

Child and dependent care credit - The 2021 enhancements to the credit for child and dependent care expenses have expired. For 2022, the credit for child and dependent care expenses is nonrefundable and you may claim the credit on qualifying employment-related expenses of up to \$3,000 if you had one qualifying person, or \$6,000 if you had two or more qualifying persons.

Earned Income Tax Credit (EITC) - For 2022 the minimum age to claim the EITC without any children returned to the pre-pandemic age range of age 25 for most taxpayers, and the maximum age limit is eliminated. Beginning in 2021, the amount of investment income eligible applicants could receive and still be eligible for the EITC increased to \$10,000. After 2021, the \$10,000 limit is indexed for inflation.

Required Minimum Distributions (RMDs) from retirement accounts - The current requirement is to begin taking a distribution at age 72. There has been discussion about increasing the minimum age to 75; no definitive legislation yet.

Charitable Contributions - Last year, without itemizing deductions, Single filers could deduct up to \$300 in charitable contributions while Married filers could deduct up to \$600. This expired with the 2021 tax return. Donations to charity are back to being deductible only if the taxpayer itemizes deductions.

Virtual Currency - This year the 1040 will ask if you received or sold a digital asset. This expands on the digital currency question we've asked the last few years to include NFTs, Stable coins and other possible cyber assets. These assets are treated as property by the IRS and transactions generally are required to be reported on the tax return.

The Inflation Reduction Act - Signed into law on August 16, 2022, it contains provisions that affect the cost of health care and provides tax incentives for clean energy among others. The new law extends the provisions involving the Premium Tax Credit (PTC) that allow those over 400% poverty level to be eligible and

keeps the favorable percentage that were established under previous laws. The Energy Efficient Home Improvement Credit (effective 2023) replaces the \$500 lifetime credit with a \$1200 annual credit and increases allowable annual credits for windows, doors, and heat pumps. The Clean Vehicle Credit changed the rules on a qualifying vehicle for the up to \$7500 credit for a new plug-in electric drive vehicle and created a new credit up to \$4000 for previously owned qualifying vehicles purchased after 12/31/2022. It is important to verify the vehicle you purchase is eligible for the credit.

Educator's deduction - Teachers and other educators can deduct up to \$300 of classroom expenses for 2022.

Standard mileage rate - We began 2022 with a standard mileage rate of \$0.585/mile driven for business use, \$0.18/mile for medical purposes or moving for qualified active-duty members of the Armed Forces, and \$0.14/mile driven in service of charitable organizations. In recognition of recent gasoline price increases, the IRS made a special adjustment for the final months of 2022. As of July 1, 2022, the standard mileage rates increased to \$0.625 for business use and \$0.22/mile for medical or moving by members of the military. The mileage rate for charitable purposes did not change. For taxpayers who deduct mileage expenses, we need to know how many miles were driven before and after the rate changed.

Inflation Adjustments for tax year 2023:

- Gift tax exclusion - The annual gift tax exclusion increases by \$1,000 to \$17,000.
- IRA and Pension Plan Limitations
 - ✓ Elective deferral 401(k), 403(b), 457 and SARSEP plans is \$22,500 (up \$2,000 from 2022) with a catchup contribution limit of \$7,500 for those age 50 or older (up \$1,000 from 2022)
 - ✓ Simple IRAs are \$15,500 (up \$1,500 from 2022) with \$3,500 catch up provision (up \$500 over 2022)
 - ✓ IRAs will be \$6,500 (up \$500 over 2022) plus \$1,000 catch up provision

What's New? Maine Changes

Pension income deduction - This deduction for non-military retirement plan benefits is increased from \$10,000 to \$25,000 for tax year 2022; \$30,000 for tax year

2023; and \$35,000 for tax years beginning on or after January 1, 2024. Benefits received under a military retirement plan, including survivor benefits, continue to be fully exempt from Maine income tax. It will continue to be offset by any Social Security or Railroad benefits received.

Maine Educational Opportunity Tax Credit (MEOTC) repealed - The credit, including any carryover of unused credit amounts from prior years, may not be claimed for tax years beginning on or after January 1, 2022. Including carryover of unused credit amounts from prior years, MEOTC is replaced by the student loan repayment tax credit described below.

Student loan repayment tax credit (SLRTC) - For tax years beginning on or after January 1, 2022, qualified individuals may claim the refundable SLRTC. The new credit is equal to the amount of eligible student loan payments made directly by the taxpayer to a relevant lender during the tax year, plus the amount of unused MEOTC amounts carried forward from prior tax years, up to \$2,500. Except, up to \$3,500 may be claimed for either tax year beginning in 2022 or 2023, whichever year is elected, by qualified individuals who received an MEOTC credit during any tax year beginning in 2019, 2020, or 2021 that was based on loans acquired to obtain a bachelor's degree or associate degree in science, technology, engineering, or mathematics. Unused MEOTC amounts that are allowed to be carried forward from prior tax years, for purposes of the SLRTC, may be claimed only for tax years beginning before January 1, 2027. A \$25,000 lifetime cap applies to the SLRTC for each qualified individual. The one-time \$1,000 maximum credit increase allowable during either tax year beginning in 2022 or 2023 does not apply against the \$25,000 lifetime cap. The new credit is now available to all graduates who received an Associate's, Bachelor's or Master's degree after 2007. It is also open to graduates from out of state colleges and universities who previously may have been ineligible for the educational opportunity credit. To apply for this credit, we need your complete college transcript, documentation of qualifying education loan(s) and documentation of the payments made.

Contributions to education savings plans ("529 Plans") - For tax years beginning on or after January 1, 2023, Mainers can once again deduct contributions made to qualified tuition program established under Section 529. The deduction, equal to contributions made

to a qualified tuition plan up to \$1,000 for each designated beneficiary, may be claimed by taxpayers whose federal adjusted gross income is under \$100,000 if filing single or married filing separately or \$200,000 if married filing jointly or head of household.

Homesteads of senior residents - The law allows certain senior residents to stabilize, or freeze, the property taxes on their homestead. An applicant must be at least 65 years old, a permanent resident of the State, and must have owned a Maine homestead for at least ten years. As long as the individual files an application each year, the tax is fixed at the amount assessed in the year prior to the initial application. Eligible residents may transfer the fixed tax amount to a new homestead, even between municipalities. The State will fully reimburse municipalities for lost revenue.

Reminders

After reviewing the Tax Appointment Checklist and our Engagement Letter, you may need:

- **Form 8332** - Required by the IRS when the custodial parent allows the non-custodial parent to claim their child as a dependent. As with all tax matters, you are urged to use caution and get both tax and legal advice when completing this form. Even though there is no longer a federal deduction for personal exemptions, being entitled to claim the child allows additional tax savings opportunities, primarily the child tax credit. There is a link to this form on our web site.
- **Consent Form** - Even when we know a caller, the IRS requires us to have a very specific, signed consent form on file before honoring their request to allow someone else to pick up their tax return, or when we are asked to send a copy of their tax return to a financial institution. We can provide you with the Consent Form, or you can print it from a link on our website, www.JackSkehan.com.
- **Form 1098-T** - Provided by a college or university for each student. This form is required when claiming education credits. An account history of financial transactions listed by semester and available from the school is also very helpful. Please bring any 1099-Qs from 529 Plan distributions or external expenses such as books, as well.

Online statements - Please be aware if you signed up to receive paperless statements from financial institutions,

investment houses and virtual currency reporting companies such as Robin Hood, Acorn and TD Ameritrade, your tax forms may be delivered to you by that method rather than in the mail. This is for reporting interest income, dividends, capital gains or losses, etc.

For those in business (including owners of rental property) who pay a person or non-incorporated entity \$600 or more, both Forms 1099-MISC and 1099-NEC are due to the recipient by January 31. These are used to report payment for services, rent, some medical payments and more. The IRS asks on the tax return if payments were made requiring a 1099 to be filed and if yes, were they. There are penalties for filing 1099s late or not at all.

NOTE: We prepare payroll, W-2 and 1099 Forms for interested clients.

Charity and your IRA – Qualified Charitable Distributions from your IRA remain a tax-free way to satisfy your required minimum distribution (RMD) obligation and still help your favorite charity. The IRS requires written acknowledgement / verification from the qualified organization for gifts over \$250.

Identity Theft / Fraudulently Filed Tax Returns – If you are a confirmed victim of tax-related identity theft and the IRS has resolved your tax account issues, they will mail you a CP01A Notice with your new IP PIN in December or January each year. The PIN prevents someone else from filing a tax return using your Social Security number or Individual Taxpayer Identification Number. The IP PIN is know only to you and the IRS. It helps the IRS verify your identity when you file your electronic or paper tax return. Please bring the letter to your appointment as we must enter the PIN on your tax return.

Complementary Consult – This benefit of doing business with Jack Skehan & Associates has proven to be very popular. We offer this complimentary one-hour tax/financial consultation service to every client during the off-peak season. It is important to understand how potential events and/or transactions will affect your taxes, investments or retirement. Several people sold their home or rental property. Some clients sold investments when the stock market was up, and some sold when it was waning. All wanted to know the consequences and some wanted to know what would happen with what they were planning to do (or had just done!). Some of our clients' concerns had to do with

letters from the IRS or state taxing agency, related to verifying the taxpayer's identity, the delay in receiving refunds, and help filing tax returns for prior years.

Staffing – Last tax season we happily welcomed back Bob Pollis to the tax preparation and support team, and Cindy St. Peter joined our Reception staff. Over the summer Scott Goldsmith began work as a full-time tax preparer. Jackie Hodgdon will be expanding her duties to preparing tax returns. We are excited to have them beside us as we enter the 2023 filing season.

Updates - We post tax developments to our website, www.JackSkehan.com, Facebook and Instagram pages. 'Like' us to get our latest news delivered to you.

We hope you find this letter helpful as you prepare to see us in 2023. Call for more information or clarification of any tax matter. Thank you for entrusting our firm (operating continuously since 1963) to provide income tax, accounting and other financial services. You have a choice of income tax providers in the area. We are pleased you selected a firm whose staff live and shop locally.

We wish everyone a healthy and happy new year!

Sincerely,



Jack Skehan & Associates

Jack Skehan & Associates subscribes to the tenets of Circular 230 which refers to Treasury Department Circular No. 230. This publication establishes the rules governing those who practice before the IRS, including attorneys, Certified Public Accountants (CPAs) and Enrolled Agents (EAs).

The information given does not cover every situation and is not intended to replace the law or change its meaning. It is intended to inform, not replace legal advice.