Massanutten Financial Services Inc.

2022 Tax Changes and 2023 Rates

2023	Single	Married-Jointly	Married-Separately	Head of Household
Tax Rate	Taxable Income over	Taxable Income over	Taxable Income over	Taxable Income over
10%	$0	$0	$0	$0
12%	$11,000	$22,000	$11,000	$15,700
22%	$44,725	$89,450	$44,725	$59,850
24%	$95,375	$190,750	$95,375	$95,350
32%	$182,100	$364,200	$182,100	$182,100
35%	$231,250	$462,500	$231,250	$231,250
37%	$578,125 or more	$693,750 or more	$578,125 or more	$578,100 or more

Standard Deduction

Filing Status	2022	Age 65+ add
Married Filing Jointly	$25,900	$1400 each
Head of Household	$19,400	$1750
Single	$12,950	$1750
Married Filing Separately	$12,950	$1400

Child Tax Credit: For tax year 2022, the Child Tax Credit is returned to $2,000 per qualifying child. You can qualify for the full $2,000 child tax credit if your MAGI is below $200,000 for single filers or $400,000 for joint filers. The credit reduces by $50 for every $1,000 above those numbers.

Educator Expense Deduction: An eligible educator can take an above-the-line deduction for out-of-pocket classroom-related expenses. For 2022, the deduction may not exceed $300.

Health Savings Accounts (HSAs): A taxpayer insured by a high deductible, HSA compatible health insurance plan may contribute and deduct up to an annual limit: Single **$3650**, Family **$7300** for 2022.

IRA Contribution Limit to Traditional and Roth IRAs: For 2022, the contribution limit to a traditional or Roth IRA is $6000 or $7000 for taxpayers age 50 or older.

Inflation Reduction Act Tax Credits: The tax legislation that has received the most attention in the past year is the Inflation Reduction Act of 2022 (**IRA of 2022**), which was signed into law this August. One of its goals was to address climate change by offering tax incentives for going green. While some of these incentives are targeted at U.S. businesses, most are available to U.S. homeowners who make energy-saving improvements to their homes.

Many of the tax benefits offered by the IRA of 2022 are not new but are actually extensions and modifications to existing credits that either had expired or were set to expire soon. For example, the nonbusiness energy property tax credit was renamed the energy efficient home improvement credit and extended through 2032.

Beginning in **2023**, the credit amount will be 30% of the costs of eligible home improvements made during the tax year, with a **$1,200 annual limit**. The specific annual limits for improvements are:

- $150 for home energy audits
- $250 for exterior doors meeting Energy Star requirements ($500 total for all doors)
- $600 for windows and skylights meeting Energy Star's most efficient certification requirements
- $2,000 for specified heat pumps and heat pump water heaters, biomass stoves and boilers (neither the $1,200 annual limit on total credits nor the $600 limit on other qualified energy property applies to this amount)
- $600 for other qualified energy property, including central air conditioners; electric panels and certain related equipment; water heaters powered by natural gas, propane, or oil; oil furnaces and water boilers

The **IRA of 2022** also renames the residential energy efficient property credit as the **residential clean energy credit**. This credit is primarily for taxpayers who install solar electric, solar hot water, fuel cell on their homes. It was scheduled to expire at the end of 2023 but has been extended through **2034**. The credit amount increased to 30% for 2023 through 2032, but drops to 26% in 2033 and 22% for 2034. The energy efficient home improvement credit no longer applies to biomass furnaces and water heaters, but will apply to battery storage technology with a capacity of at least three kilowatt hours.

Please get proof from your vendor that your specified item meets the applicable residential clean energy or clean vehicle credit.

Updated Electric Vehicle Credit: It may seem the IRA of 2022's $7,500 tax credit for purchases of new electric vehicles is just a continuation of a credit that was already available, but the legislation made many substantive changes. The credit is now known as the **clean vehicle credit**, and the IRA of 2022 placed several restrictions on the credit that may make it difficult for some buyers of electric vehicles to take advantage of it.

Starting in 2023, only households with incomes of up to $300,000 qualify for the credit, with the credit limited to individual taxpayers with incomes below $150,000. Additionally, only battery-powered cars priced at less than $55,000 are eligible, or $80,000 for vans, SUVs and trucks. Finally, final assembly of the vehicle must have been in North America, and the materials from which it is constructed must meet specified sourcing requirements.

Third Party Reporting (1099-K): If you receive payments for good or services through an online app, and those payments add up to more than $600 in the year, you'll likely get a Form 1099-K. You will receive your 2022 Form 1099-K in early 2023.

You must report all income on your tax return unless excluded by law, whether you receive an information return, like a 1099-K, or not. Payments you receive through an online app from friends and family for gifts or reimbursements for personal expenses are not taxable. See Publication 525 Taxable and Nontaxable Income at IRS.gov for more on taxable income and exclusions.

If you sold an item you owned for personal use, such as a car, refrigerator, furniture, stereo, jewelry, etc., at a gain, your gain is taxable as a capital gain. If you have a loss on the sale of an item you owned for personal use, do not report a loss (the loss is not deductible).

Please make sure to inform me of any 1099-K received; the nature of the income as well as the cost of items sold for profit or the type of services provided. I can report on the appropriate form as needed.

Cryptocurrency

Transactions involving a digital asset are generally required to be reported on a tax return.
Taxable gain or loss may result from transactions including, but not limited to:

- Sale of a digital asset for fiat
- Exchange of a digital asset for property, goods, or services
- Exchange or trade of one digital asset for another digital asset
- Receipt of a digital asset as payment for goods or services
- Any other disposition of a financial interest in a digital asset

Failure to report any sale of digital asset reported as a 1099-B transaction could result in a letter from the IRS later.

Virginia Updates for 2022

Increase in Standard Deduction: New legislation enacted during the 2022 General Assembly session increases the standard deduction from **$4,500 to $8,000** for single filers and from **$9,000 to $16,000** for married filers filing jointly. The increase for Taxable Year 2022 is contingent on annual revenue growth of at least five percent for the six-month period of July 2022 through December 2022. The increase for Taxable Year 2023 is contingent on annual revenue growth of at least five percent for the twelve-month period of July 2022 through June 2023. If the five percent growth rate is not met for either taxable year, the standard deduction for that taxable year will be $7,500 for single individuals and $15,000 for married persons. Under this Act, the increase in the standard deduction is scheduled to sunset after Taxable Year 2025 and revert to the standard deduction amounts that applied prior to Taxable Year 2019: $3,000 for single filers and $6,000 for married couples filing jointly. I'm not sure how this will be worked out!

Deduction for Eligible Educators: For taxable years beginning on and after January 1, 2022, but before January 1, 2025, an individual income tax deduction is allowed for up to **$500** for the amount actually paid or incurred for eligible educator qualifying expenses. An "Eligible educator" is an individual who for at least 900 hours during the taxable year served as a Virginia licensed teacher, instructor, student counselor, special needs personnel, principal, or student aide for public or private primary and secondary school students in Virginia.

New Elective Pass-Through Entity Tax: New legislation enacted in the 2022 General Assembly allows a qualifying pass-through entity (PTE) to make an annual election for taxable years 2021 through 2025 to pay income tax at a rate of 5.75 percent at the entity level. A "qualifying PTE" must meet certain guidelines