IRS HELP, INC.

2952 Seneca St.
West Seneca, NY 14224
(716) 827-1980
irshelp.com

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Tax-Saving Tips

Earn 9.62 Percent Tax-Deferred Interest with Series I Bonds

Inflation is seldom a good thing.

But when it comes to investing, the U.S. Treasury Department has an inflation opportunity that's downright amazing. You can buy bonds that pay 9.62 percent interest—tax-deferred—with no downside risk, and with no state or local income taxes when you cash them in.

If you buy now, you earn that 9.62 percent for six months, guaranteed. At the end of six months, the Treasury Department

- adds the interest you earned to your principal, and
- pays interest on your new principal balance at the new rate it will determine this year, on November 1.

Example. You buy $10,000 of Series I bonds on September 24. You earn 9.62 percent for six months for a total of $481 ($10,000 x 9.62 percent ÷ 2). On March 24, your principal balance is $10,481 ($10,000 + 481).

Let's say Treasury sets the November 1 interest rate at 9 percent. During the six months from March 24 to September 24, 2023, you earn interest at 9 percent on $10,481. Now, at the end of a full year, you have $10,953 in your TreasuryDirect I bond account.

The big deal with an I bond is fourfold:

- You can't lose your principal (e.g., your $10,953 in the example above can't go down).
- Interest rates on I bonds track with the consumer price index inflation rate, which has been high.
- You earn tax-deferred compound interest until you cash in.
- The interest is exempt from state and local income taxes.

You have much to like with the Series I bond. And there's little to dislike. Perhaps the biggest dislike is the $10,000 limit on I bond purchases, but you can use your business entities, trusts, gifts, and even your living trust to make purchases of I bonds and create a much higher limit than $10,000.

With the gifting strategy, you can have more than one gift box per donee, so you have opportunity there too.

The biggest deal with the I bond is that it carries no downside risk. It can’t go below its latest redemption value, and the interest rate can’t go below zero.

The one thing you need to pay attention to is the interest rate. It changes with inflation. The Fed wants to lower inflation to its target 2 percent. For most people, this means that the I bond could be a short-term investment—say, one to five years.

But think in the short term now. Where else can you earn 9.62 percent tax-deferred interest, risk-free?

New and Improved Energy Tax Credits for Homeowners

The president signed the Inflation Reduction Act into law on August 16, 2022. It contains some valuable tax credits for homeowners.

When it comes to taxes, nothing is better than a tax credit since it is a dollar-for-dollar reduction in the taxes you must pay (unlike a tax deduction that only reduces your taxable income). In other words, a $1,000 credit saves you $1,000 in taxes.

The new law extends and expands three tax credits intended to encourage homeowners to make their homes more energy efficient and to facilitate the use of electric vehicles.

Energy Efficient Home Improvement Credit

The new law creates the 2023 Energy Efficient Home Improvement Credit that helps homeowners pay for various types of energy efficiency improvements, including

- exterior windows, skylights, and doors;
- home insulation;
- heat pumps, water heaters, central air conditioners, furnaces, and hot water boilers;
- biomass stoves and boilers; and
- electric panel upgrades.

The old credit contained a tiny $500 lifetime cap. Lifetime caps are gone beginning in 2023.

Instead, the new law gives you a $1,200 annual cap along with specific caps on some improvements. But overall, you can perform many energy efficiency projects over several years and collect a credit each year.

Residential Clean Energy Credit

Most taxpayers earn the Residential Clean Energy Credit by installing solar. Two good things here. First, the new law extends the credit through 2034. Second, the new law increases the credit from 26 percent to 30 percent for eligible property placed in service in 2022 through 2032.

There is no annual or lifetime cap on this credit. The average solar project cost on a home is over $20,000, so this credit can save you more than $6,000.

You can also apply this credit to the cost of storage batteries, solar water heaters, geothermal heat pumps, small residential wind turbines, and residential fuel cells.

Home Electric Vehicle Charger Credit

The new law extends through 2032 the tax credit for installing a home electric charger. The amount of credit remains the same: a non-refundable credit equal to 30 percent of the cost of a home charger, capped at $1,000. But starting in 2023, the credit will be available only for homeowners who live in low-income or rural areas.

Claiming the ERC When You Own Multiple Entities

Do you qualify for the employee retention credit (ERC)? Did you claim it?

It's not too late. You can still amend your 2020 and 2021 payroll tax returns.

Remember, this can be worth up to $5,000 per employee in 2020 and up to $7,000 per employee per quarter for the first three quarters of 2021, for a 2021 total of $21,000 ($26,000 per qualifying employee for 2020 and 2021 combined).

Example. Let's say you have 10 employees who fully qualify for the credit. That's a $260,000 tax credit (think cash): ($5,000 + $7,000 + $7,000 + $7,000) x 10 = $260,000.

Who Must Aggregate Businesses?

When you own more than one entity, you face special rules when it comes to the ERC. And you don't have to own the other entity entirely to face the special rules.

Here are just a few examples of who has to aggregate businesses for purposes of the ERC:

- Howard operates his dental practice as an S corporation, and he also owns three rental properties that he deems businesses.
- Carla Corporation operates 11 subsidiary corporations located in seven states.
- Jack, Jake, and Jim own one-third of four corporations.

Okay, So What?

When you aggregate the business entities into one for the ERC, you have to consider the following questions:

- Are you now (because of the aggregation) a small or a large employer under the 100 (2020) or 500 (2021) large-employer test?
- What does the aggregation of the businesses mean for your qualifying under the decline-in-gross-receipts test?
- What is the effect of a government COVID-19 shutdown or modification order on one of the entities, and how does it affect the aggregated group?
- How do you treat employees who work for more than one of the entities?

A Little More

In most cases, identifying the group to aggregate is going to be straightforward, but it can get pretty complicated with some entities. The bottom line is that it's likely worthwhile to aggregate and see what's possible for the ERC.

When you aggregate, you look at gross receipts compared with 2019, and you also look to government shutdown orders. Obviously, you use the best results you find with either (a) the gross receipts drop or (b) the shutdown orders.

There's a pleasant surprise with the government shutdown order, because if that order affects one entity in the group, the IRS says it affects the entire group. For example, Sam owns five retail corporations. One was shut down by governmental order. That shutdown applies to all five corporations and can create tax credits with each of the five.

New Business Tax Credits for Your Electric Vehicle Purchases

You may have heard that the newly enacted Inflation Reduction Act includes an expanded tax credit for electric vehicles.

Although this personal credit has gotten most of the publicity, the new law launched a new commercial clean vehicle credit—specifically for business-use electric vehicles. And it's much better than the credit for personal-use electric vehicles.

The new law's personal-use electric vehicle credit is now called the clean vehicle credit. It comes with many new restrictions:

- It is available only if your adjusted gross income is no more than $300,000 (married, filing jointly) or $150,000 (single).

- It applies only to electric vehicles with a manufacturer's suggested retail price below $80,000 for vans, SUVs, and pickup trucks, or $55,000 for other vehicles.

- It must pass complex tax-law-defined North American assembly and sourcing requirements that prevent many electric vehicles from qualifying.

Luckily, if you purchase or lease an electric vehicle for business use in 2023 or later, none of the clean vehicle credit restrictions apply. Instead, you can qualify for the business-use electric vehicle credit. The credit is available for fully electric cars, plug-in hybrid electric vehicles, and fuel cell vehicles.

The maximum credit is $7,500 for electric vehicles with a gross vehicle weight rating (GVWR) of less than 14,000 pounds and a whopping $40,000 for electric vehicles with a GVWR of 14,000 pounds or more.