Norwalk Business Service, Inc.

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*****Inflation Reduction Act and Secure Act 2.0*****

Dear Client:

The recently enacted **Inflation Reduction Act of 2022** contains several new environment-related tax credits that are of interest to individuals and small businesses. The Act also extends and modifies some preexisting credits. Included below are some of the key highlights.

Extension, Increase, and Modifications of Nonbusiness Energy Property Credit

Increased credit. The Act increases the credit for a tax year to an amount equal to 30% of the sum of (a) the amount paid or incurred by you for qualified energy efficiency improvements installed during that year, and (b) the amount of the residential energy property expenditures paid or incurred by you during that year.

Annual limitation in lieu of lifetime limitation. The allowable credit to $1,200 per taxpayer per year. In addition, there are annual limits of $600 for credits with respect to residential energy property expenditures, windows, and skylights, and $250 for any exterior door ($500 total for all exterior doors). Notwithstanding these limitations, a $2,000 annual limit applies with respect to amounts paid or incurred for specified heat pumps, heat pump water heaters, and biomass stoves and boilers.

New Clean-Vehicle Credit

Before the enactment of the Act, you could claim a credit for each new qualified plug-in electric drive motor vehicle (NQPEDMV) placed in service during the tax year.

The Act, among other things, retitles the NQPEDMV credit as the Clean Vehicle Credit and eliminates the limitation on the number of vehicles eligible for the credit. Also, final assembly of the vehicle must take place in North America.

No credit is allowed if the lesser of your modified adjusted gross income for the year of purchase or the preceding year exceeds $300,000 for a joint return or surviving spouse, $225,000 for a head of household, or $150,000 for others. In addition, no credit is allowed if the manufacturer's suggested retail price for the vehicle is more than $55,000 ($80,000 for pickups, vans, or SUVs).

Finally, the way the credit is calculated is changing. The rules are complicated, but they place more emphasis on where the battery components (and critical minerals used in the battery) are sourced.

Credit for Previously Owned Clean Vehicles

A qualified buyer who acquires and places in service a previously owned clean vehicle after 2022 is allowed an income tax credit equal to the lesser of $4,000 or 30% of the vehicle's sale price. No credit is allowed if the lesser of your modified adjusted gross income for the year of purchase or the preceding year exceeds $150,000 for a joint return or surviving spouse, $112,500 for a head of household, or $75,000 for others. In addition, the maximum price per vehicle is $25,000.

New Credit for Qualified Commercial Clean Vehicles

There is a new qualified commercial clean-vehicle credit for qualified vehicles acquired and placed in service after December 31, 2022.

The credit per vehicle is the lesser of: 1) 15% of the vehicle's basis (30% for vehicles not powered by a gasoline or diesel engine) or 2) the "incremental cost" of the vehicle over the cost of a comparable vehicle powered solely by a gasoline or diesel engine. The maximum credit per vehicle is $7,500 for vehicles with gross vehicle weight ratings of less than 14,000 pounds, or $40,000 for heavier vehicles.

Secure Act 2.0

The Act which was passed this last December, provides new incentives for employers to offer retirement plans to their employees and for the employees to participate and improve their retirement security. SECURE 2.0 helps employees and their beneficiaries, owner-employees, small businesses, and retirees, and eases costs, administrative burdens, and penalties for inadvertent mistakes. Below are some of the new provisions in the act.

Tax-free rollovers from 529 accounts to Roth IRAs. After 2023, the Act permits beneficiaries of 529 college savings accounts to make up to $35,000 of direct trustee-to-trustee rollovers from a 529 account to their Roth IRA without tax or penalty. The 529 account must have been open for more than 15 years, and the rollover is limited to the amount contributed to the 529 account (and its earnings) more than five years earlier.

Age increased for required distributions. Under the Act, the age used to determine required distribution beginning dates for IRA owners, retired employer plan members, and active-employee 5%-owners increases, in two stages, from the current age of 72 to age 73 for those who turn age 72 after 2022, and to age 75 for those who attain age 74 in 2032.

Bigger catch-up contributions permitted. Starting in 2025, the Act increases the current elective deferral catch-up contribution limit for older employees from $7,500 for 2023 ($3,500 for SIMPLE plans) to the greater of $10,000 ($5,000 for SIMPLE plans), or 50% more than the regular catch-up amount in 2024 (2025 for SIMPLE plans) for individuals who attain ages 60-63. The dollar amounts are inflation-indexed after 2025.

Disaster Distributions. Also, retroactive for disasters after January 25, 2021, penalty free distributions of up to $22,000 may be made from employer retirement plans or IRAs for affected individuals. Regular tax on the distributions is taken into account as gross income over three years. Distributions can be repaid to a tax preferred retirement account.

Reduced penalty tax on failure to take RMDs. For tax years beginning after December 29, 2022, the Act reduces the penalty for failure to take required minimum distributions from qualified retirement plans, including

IRAs, or deferred compensation plans under Code Sec. 457(b) from the current 50% to 25% of the amount by which the distribution falls short of the required amount. It reduces the penalty to 10% if the failure to take the RMD is corrected in a timely manner.

Employer match for student loan payments*.* To assist employees who may not be able to save for retirement because they are overwhelmed with student debt, and are missing out on available matching contributions for retirement plans, SECURE allows them to receive matching contributions by reason of their student loan repayments. For plan years after 2023, it allows employers to make matching contributions under a 401(k) plan, 403(b) plan, or SIMPLE IRA for "qualified student loan payments."

Please contact our office if you have any questions or if you would like to make an appointment for this coming tax season

Very truly yours,

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