SJWT 2022
Hot Topics – Part 2

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Overview of Topics

Individuals
- Child Tax Credit for 2022
- Charitable Contribution Limits for 2022
- IRS Contribution Limits & Deduction Phaseouts for 2022
- RMDs for 2022

Entity reporting
- Amortizing R&D Costs and R&D Claim for Refund – New Requirements
- How to Report Non-Taxable CARES Act Benefits
- Schedule K-2 & K-3 reporting

Miscellaneous
- Migration of e-Services sign-in
- “Where’s My Refund” update
- Tax Extenders – status
- 1099-K reporting

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Child Tax Credit Background

- A qualifying child is generally:
  1. must be the taxpayer's child (including a stepchild, adopted child, or foster child) or sibling (brother, sister, stepbrother, or stepsister), or a descendant of the taxpayer’s child or sibling;
  2. must be under age 17 at the end of the tax year;
  3. must be a U.S. citizen, national, or resident;
  4. must live with the taxpayer for more than half of the year;
  5. cannot provide over half of his or her own support for the year;
  6. cannot file a joint return for the year other than to claim a refund; and
  7. must be claimed as the taxpayer’s dependent.

Child Tax Credit for 2022

- The child tax credit **reverts back to its pre-2021 form** for the 2022 tax year.
- That means the 2022 credit amount drops back down to $2,000 per child (it was $3,000 for children 6 to 17 years of age and $3,600 for children 5 years old and younger for the 2021 tax year). Children who are 17 years old don't qualify for the credit this year, because the former age limit (16 years old) returns.
- For some lower-income taxpayers, the 2022 credit is only partially refundable (up to $1,500 per qualifying child), and they must have earned income of at least $2,500 to take advantage of the credit's limited refundability.
- There will be no monthly advance payments of the credit in 2022.

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Charitable contributions: 2022

- The **"above-the-line" deduction** for up to $300 of charitable *cash* contributions ($600 for married couple filing a joint return) expired at the end of 2021. (it isn't available for the 2022 tax year) Only people who claimed the **standard deduction** on their tax return (rather than claiming itemized deductions on Schedule A) were allowed to take this deduction.

- The 2020 and 2021 suspension of the 60%-of-AGI limit on deductions for cash donations by people who itemize also expired, so the limit is back in place starting with the 2022 tax year.

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IRA Contribution Limits and Deduction Phaseouts in 2022

- The 2022 contribution limit for **traditional IRAs** and **Roth IRAs** stays steady at $6,000, plus $1,000 as an additional catch-up contribution for individuals age 50 and up. However, the income ceilings on Roth IRA contributions went up. Contributions phase out in 2022 at adjusted gross incomes (AGIs) of $204,000 to $214,000 for couples and $129,000 to $144,000 for singles (up from $198,000 to $208,000 and $125,000 to $140,000, respectively, for 2021).

- Deduction phaseouts for traditional IRAs also start at higher levels in 2022, from AGIs of $109,000 to $129,000 for couples and $68,000 to $78,000 for single filers (up from $105,000 to $125,000 and $66,000 to $76,000 for 2021). If only one spouse is covered by a plan, the phaseout zone for deducting a contribution for the uncovered spouse starts at $204,000 of AGI and ends at $214,000 (they were $198,000 and $208,000 for 2021).

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Required Minimum Distributions in 2022

- The IRS updated the table used to calculate **required minimum distributions (RMDs)** to account for longer life expectancies beginning in 2022. That means RMDs should be a bit smaller starting in 2022 than they were before.
- The maximum contribution limits for **401(k)**, 403(b) and 457 jumps from $19,500 to $20,500 for 2022, while people born before 1973 can once again put in $6,500 more as a "catch-up" contribution.
- The 2022 cap on contributions to **SIMPLE IRAs** is $14,000 ($13,500 in 2021), plus an extra $3,000 for people age 50 and up.
- The 2022 contribution limit for **traditional IRAs** and **Roth IRAs** stays steady at $6,000, plus $1,000 as an additional catch-up contribution for individuals age 50 and up.

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R&D: Amortization of R&D Expenses

- The Tax Cuts and Jobs Act enacted in 2017 contained a provision whereby beginning January 1, 2022, costs for R&D activities will no longer be immediately deductible.
- The costs will have to be capitalized and amortized over 5 or 15 years.
- Costs related to research activities performed in the U.S. will be recovered over a 5-year amortization period.
- Costs related to research activities performed outside the U.S. will be recovered over a 15-year amortization period.
- Build Back Better was to reverse these changes but that now seems unlikely.

R&D: Claim for Refund – New Requirements

- On October 15, 2021, the Office of Chief Counsel issued Memorandum 20214101F, related to **Research & Development Claims for Refund.** The new requirements took effect on January 10, 2022.

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R&D: Claim for Refund – New Requirements

- Identify all the business components to which the I.R.C. § 41 research credit claim relates for that year.

- For each business component:
  - Identify all research activities performed;
  - Identify all individuals who performed each research activity; and
  - Identify all the information each individual sought to discover.

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R&D: Claim for Refund – New Requirements

- Provide the total qualified employee wage expenses, total qualified supply expenses, and total qualified contract research expenses for the claim year (this may be done using Form 6765, Credit for Increasing Research Activities).

R&D: Claim for Refund – New Requirements

- A taxpayer **must provide a declaration signed under the penalties of perjury verifying that the facts provided are accurate**.
- In most cases, the signature on Forms 1040X or 1120X serves this function.
- Additionally, a taxpayer should **provide the facts in a written statement** rather than through the production of documents. However, if a taxpayer provides documents, including a credit study, the taxpayer **must specify the exact page(s) that supports a specific fact**. A mere volume of documents will not suffice to meet a taxpayer's obligation.

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R&D: Claim for Refund – New Requirements

- For the statute of limitations for credit or refund claims, there are no statutory provisions specific to I.R.C. § 41 research credit claims.
- Generally, taxpayers may be entitled to a credit or refund only if they have filed a valid claim **within three years of the date the Form 1040 or Form 1120 was filed or two years from the time the tax was paid, whichever period expires later.**
- The amount of the credit or refund shall not exceed the portion of the tax paid within the period immediately preceding the filing of the claim equal to three years plus any extension of time for filing the return.

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Non-Taxable CARES Act Benefits

- The following benefits are not taxable income:
  - PPP1 & PPP2 Loans that were forgiven
  - EIDL Advance
  - SVOG Program
  - SBA Loan Payments

Reporting Non-Taxable Income

- Schedule C Filers – not reported
- Partnerships – Schedule M-1, Line 6a

22 Total liabilities and capital . . . .

Schedule M-1 **Reconciliation of Income (Loss) per Books With Income (Loss) per Return**
Note: The partnership may be required to file Schedule M-3. See instructions.

1	Net income (loss) per books		6	Income recorded on books this year not included on Schedule K, lines 1 through 11 (itemize):	
2	Income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on books this year (itemize):		a	Tax-exempt interest $	
3	Guaranteed payments (other than health insurance)		7	Deductions included on Schedule K, lines 1 through 13d, and 21, not charged against book income this year (itemize):	
4	Expenses recorded on books this year not included on Schedule K, lines 1 through 13d, and 21 (itemize):		a	Depreciation $	
a	Depreciation $		8	Add lines 6 and 7	
b	Travel and entertainment $		9	Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5	
5	Add lines 1 through 4				

Schedule M-2 **Analysis of Partners' Capital Accounts**

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Reporting Non-Taxable Income

- Corporations – Schedule M-1 Line 7

28 Total liabilities and shareholders' equity . . .

Schedule M-1 **Reconciliation of Income (Loss) per Books With Income per Return**

Note: The corporation may be required to file Schedule M-3. See instructions.

1	Net income (loss) per books		**7**	Income recorded on books this year not included on this return (itemize):	
2	Federal income tax per books			Tax-exempt interest $	
3	Excess of capital losses over capital gains .				
4	Income subject to tax not recorded on books this year (itemize):				
5	Expenses recorded on books this year not deducted on this return (itemize):		**8**	Deductions on this return not charged against book income this year (itemize):	
a	Depreciation . . . . . $		**a**	Depreciation . . $	
b	Charitable contributions . $		**b**	Charitable contributions $	
c	Travel and entertainment . $				
			9	Add lines 7 and 8	
6	Add lines 1 through 5		**10**	Income (page 1, line 28)—line 6 less line 9	

Schedule M-2 **Analysis of Unappropriated Retained Earnings per Books (Schedule L, Line 25)**

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Reporting Non-Taxable Income

- S-Corporations – Schedule M-1, Line 5a

Form 1120-S (2021) Page **5**

Schedule M-1 **Reconciliation of Income (Loss) per Books With Income (Loss) per Return**

Note: The corporation may be required to file Schedule M-3. See instructions.

1 Net income (loss) per books		**5** Income recorded on books this year not included on Schedule K, lines 1 through 10 (itemize):	
2 Income included on Schedule K, lines 1, 2, 3c, 4, 5a, 6, 7, 8a, 9, and 10, not recorded on books this year (itemize)		**a** Tax-exempt interest $	
3 Expenses recorded on books this year not included on Schedule K, lines 1 through 12 and 16f (itemize):		**6** Deductions included on Schedule K, lines 1 through 12 and 16f, not charged against book income this year (itemize):	
a Depreciation $		**a** Depreciation $	
b Travel and entertainment $		**7** Add lines 5 and 6	
		8 Income (loss) (Schedule K, line 18). Subtract line 7 from line 4	
4 Add lines 1 through 3			

Schedule M-2 **Analysis of Accumulated Adjustments Account, Shareholders' Undistributed Taxable Income**

Schedules K-2 & K-3 Reporting

- Schedules K-2 and K-3 replace former line 16 of Form 1065 Schedule K and Schedule K-1 (Foreign Transactions).They also replace, supplement, and clarify reporting of certain amounts formerly reported on Schedule K, line 20c (Other items and amounts), and Schedule K-1, Part III, line 20 (Other information).

- The new Schedules K-2 and K-3 **will be required** to be filed with 2021 partnership/S corporation returns and 2021 Schedules K-1.

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Schedules K-2 & K-3 Reporting: Why?

- Standardized format aligns the information provided by partnerships to the international tax forms used by partners
- Consistent information should allow partners to more easily prepare their tax returns
- Better and more consistent data should allow the IRS to more efficiently verify taxpayer compliance
- **NOTICE 2021-39**: penalty relief to filers who fall short of the new requirements in tax years that begin in 2021, so long as they make a **good-faith effort** to comply.

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Schedules K-2 & K-3 Reporting: Penalty Relief

- **For purposes of determining whether a filer of Schedule K-2 or Schedule K-3 makes a good faith effort, the IRS will consider:**
  - The extent to which the filer has made changes to its systems, processes, and procedures for collecting and processing information relevant to filing the Schedules K-2 and K-3;
  - The extent to which the filer has obtained information from partners, shareholders or the CFP or applied reasonable assumptions when information is not obtained; and
  - The steps taken by the partnership to modify the partnership agreement or governing instrument to facilitate the sharing of information with partners that is relevant to determining whether and how to file Schedules K-2 and K-3.

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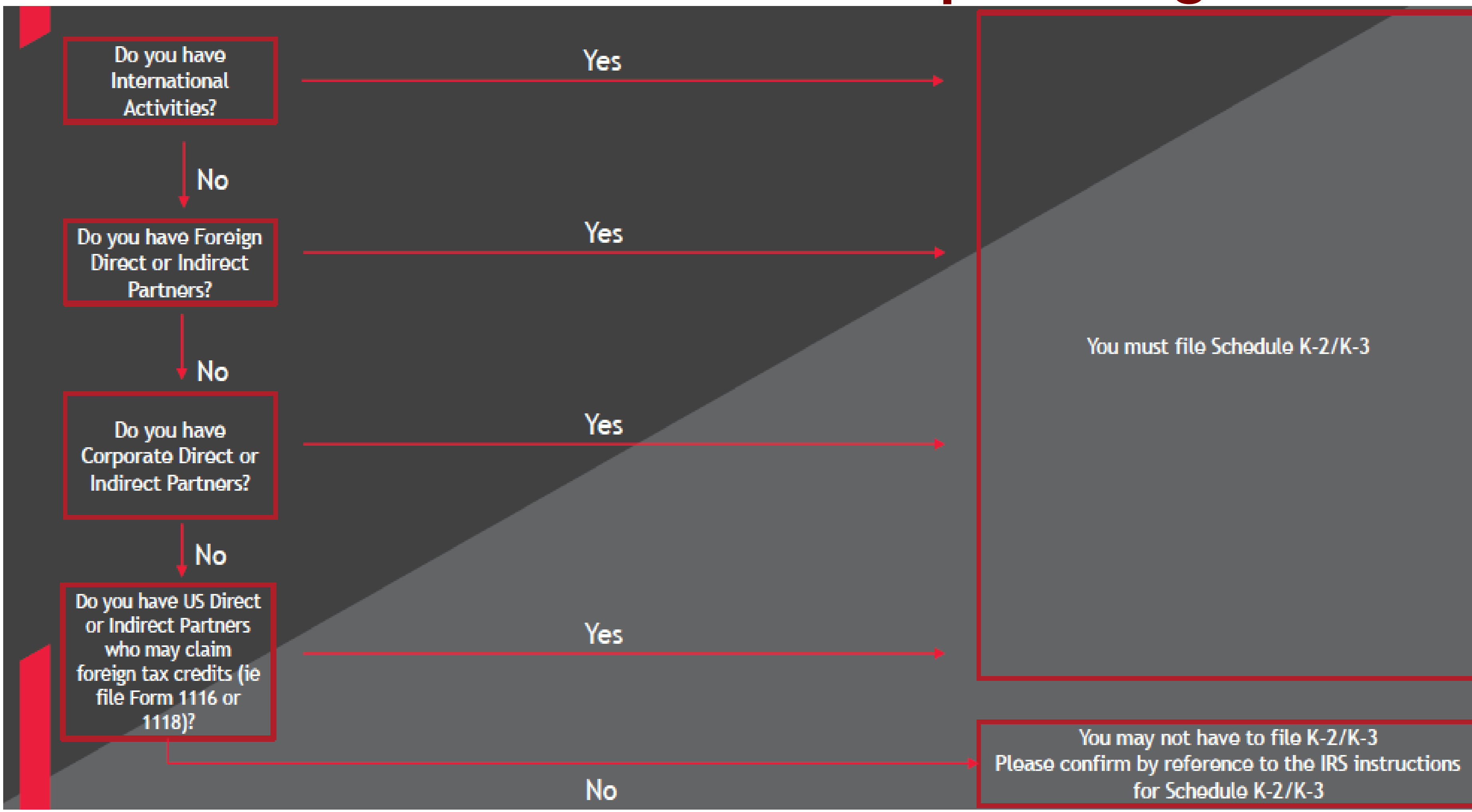
Schedules K-2 & K-3 Reporting: Who?

- Any partnership required to file Form 1065 and that has items relevant to the determination of the U.S. tax or certain withholding tax or reporting obligations of its partners under the international provisions of the Internal Revenue Code must complete the relevant parts of Schedules K-2 and K-3.

- The partnership need not complete the Schedule K-2 and K-3 if the partnership does not have items of international tax relevance (typically, **international activities or foreign partners**).

- Penalties may apply for filing Form 1065 without all required information or for furnishing Schedules K-3 to partners without all required information.

Schedules K-2 & K-3 Reporting



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Migration of e-Services Sign In

- Many of the IRS online services applications have already switched to a new authentication platform. New users for those applications create an account via ID.me, instead of the legacy IRS system. You'll be able to use your account across multiple IRS tools and at other government agencies that also use ID.me.

- In the summer of 2022, the IRS plans to migrate the e-Services suite of tax professional online applications and products behind ID.me. These products and applications will be impacted:

  - Affordable Care Act (ACA) for Transmitter Control Code (TCC)
  - Application Program Interface (API) Client ID Application
  - e-File Application
  - Information Returns (IR) for TCC
  - Income Verification Express Service (IVES) Application
  - State Applications (State EFIN and TDS State)
  - TIN Matching, including Bulk and Interactive TIN Matching
  - Transcript Delivery System (TDS)
  - Secure Object Repository (SOR)
  - Modernized e-File (MeF)
  - ACA Information Returns (AIR)

- You can get ready for the migration and set up an ID.me account now using Tax Pro Account

IRS Updates "Where's My refund?"

- The Internal Revenue Service made an important enhancement to the "Where's My Refund?" online tool this week, introducing a new feature that allows taxpayers to check the status of their current tax year and two previous years' refunds

- Taxpayers can select any of the three most recent tax years to check their refund status. They'll need their Social Security number or ITIN, filing status and expected refund amount from the original filed tax return for the tax year they're checking

- Previously, "Where's My Refund?" only displayed the status of the most recently filed tax return within the past two tax years. Information available to those calling the refund hotline will be limited to the 2021 tax return.

- Using "Where's My Refund?", taxpayers can start checking the status of their refund within:
  - 24 hours after e-filing a tax year 2021 return.
  - Three or four days after e-filing a tax year 2019 or 2020 return.
  - Four weeks after mailing a return.

Tax Extenders: Status

- Congress is likely to vote on a two-year tax extender package after the November election and likely would be retroactive to 2022.

Extenders that impact individuals:

- Mortgage insurance premiums deduction;
- Health coverage tax credit for medical insurance premiums paid by certain Trade Adjustment Assistance recipients and people whose pension plans were taken over by the Pension Benefit Guaranty Corporation;
- Nonbusiness energy property credit for certain energy-saving improvements to your home (e.g., new energy-efficient windows and skylights, exterior doors, roofs, insulation, heating and air conditioning systems, water heaters, etc.);
- Fuel cell motor vehicle credit;
- Alternative fuel vehicle refueling property credit; and
- Two-wheeled plug-in electric vehicle credit.

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1099-K Reporting from Third Party Settlement Organizations: Reminder

- The American Rescue Plan Act of 2021 recently modified IRC Section 6050W by lowering the threshold for Form 1099-K reporting on third-party network transactions. TPSOs for Form 1099-K reporting purposes.

- Starting with the 2022 tax year, third-party payment settlement networks (e.g., PayPal and Venmo) will send you a Form 1099-K if you are paid over $600 during the year for goods or services, regardless of the number of transactions. Previously, the form was only sent if you received over $20,000 in gross payments *and* participated in more than 200 transactions. The gross amount of a payment doesn't include any adjustments for credits, cash equivalents, discount amounts, fees, refunded amounts, or any other amounts.

venmo

PayPal

Cash App

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