# The Norton Tax Bulletin

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Dear Clients, family, and friends,

There have been some interesting developments in tax law matters that I thought I would address in this newsletter.

## Earn 9.62 Percent Tax-Deferred Interest with Series I Bonds

Inflation is seldom a good thing. We all have been experiencing high prices at the pump and grocery store – and most other places and services as well. But when it comes to investing, the U.S. Treasury Department has an inflation opportunity that is downright amazing. You can buy bonds that pay 9.62 percent interest—*tax-deferred* (*which means you do not report the interest as income until you cash in the bond!)*—with no downside risk, and with no state or local income taxes when you cash them in. For those of us living in California with its very high state income tax rate, this aspect (*no state income tax*) is really a major plus!!

If you buy a bond 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. Compared to the measly fractional savings accounts, mutual funds, and CD interest rates being paid by most banks, this is a *huge* opportunity!!

The big deal with an I bond is fourfold:

- You cannot 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 bond.
- The interest is exempt from state and local income taxes.

You have much to like with the Series I bond. And there is 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. FYI – I don't see interest rates dropping any time soon given the current inflationary policies at play in Washington D.C.

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. Frankly, until there is a political climate change in Washington, I am not hopeful that will come to pass. For most people, if this does, in fact, occur, 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 Inflation Reduction Act was signed 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. If you are in the 28% tax bracket, a $1,000 **deduction** saves you $280 in taxes. *Does that help explain the credit vs deduction advantage?*

The new law extends and expands three (3) 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. Further, there is no annual or lifetime cap on this credit. The average solar project cost on a home is over $30,000, so this credit can save you more than $9,000.

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

We have all read the articles and news stories encouraging us to junk our gas-powered vehicles and buy electric cars (*which, by the way, you now understand that you are not supposed to charge them during times of peak demand for electricity like we experienced over the past couple of weeks*). 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. So, if you are contemplating doing this and you are NOT in a low-income or rural area, you have a few months to get the permit and get it installed.

## Claiming the ERC When You Own Multiple Entities

This section is primarily for clients and others who own one or more businesses

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 credit 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 must 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 each own one-third of four corporations.

Okay, so what is the big deal? When you aggregate the business entities into one for the ERC, you must 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?

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 is likely worthwhile to aggregate and see what is 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 is 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

The Inflation Reduction Act amends the **Qualified Plug-in Electric Drive Motor Vehicle Credit,** now known as the ***Clean Vehicle Credit***, and adds a new requirement for final assembly in North America that takes effect on August 16, 2022. Additional provisions will go into effect on January 1, 2023. 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.

As mentioned above, 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. Note that the dollar limit is the sticker price (MSRP) from the manufacturer – not the MSRP *with* the dealer-added markup!
- It must pass complex tax-law-defined North American assembly and sourcing requirements that prevent many electric vehicles from qualifying. If you entered into a written binding contract to purchase a new qualifying electric vehicle before August 16, 2022, but do not take possession of the vehicle until on or after August 16, 2022 (*for example, because the vehicle has not been delivered),* you may claim the EV credit based on the rules that were in effect before August 16, 2022. The final assembly requirement does not apply before August 16, 2022.This is a link to a site that lists qualifying vehicles:

  Alternative Fuels Data Center: Inflation Reduction Act of 2022 (energy.gov)

Fortunately, 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. I will be discussing this credit in more detail in a future newsletter.

As I am writing this, I am wondering how this credit is going to work with mixed-use vehicles. For example, assume that I have company and use a truck for making some deliveries to clients, as well as for my personal use (*taking the boat to the lake, or going on vacations*). Figuring out my business vs personal use is not a difficult task (*so long as I keep good records of the miles driven and for what purpose).* But often, the business use percentage changes from year to year. If I buy a qualified vehicle in 2023 that I use 60% for business, do I claim the credit (*assuming I qualify*) on 60% of its cost?

Here is the big question. *What happens if in 2024 by business use dropped to say 52%? Do I have to "pay back" 8% of the credit claimed in 2023?* Stay tuned as I will endeavor to provide more information on this specific credit and its operation in the future.

Getting back to the actual credit for business use 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.

**IRS Warns of New Scam**

Taxpayers should be on the lookout for new variations of tax-related scams. In the latest twist on a scam related to Social Security numbers, scammers claim to be able to suspend or cancel the victim's SSN. It is yet another attempt by con artists to frighten people into returning 'robocall' voicemails.

Scammers may mention overdue taxes in addition to threatening to cancel the person's SSN. If taxpayers receive a call threatening to suspend their SSN for an unpaid tax bill, they should just hang up.

Make no mistake…it's a scam.

Taxpayers should not give out sensitive information over the phone unless they are *positive* they know the caller is legitimate. When in doubt – hang up. Here are some telltale signs of this scam. The IRS and its authorized private collection agencies will never:

- Call to demand immediate payment using a specific payment method such as a prepaid debit card, iTunes gift card or wire transfer. The IRS does not use these methods for tax payments.
- Ask a taxpayer to make a payment to a person or organization other than the U.S. Treasury.
- Threaten to immediately bring in local police or other law-enforcement groups to have the taxpayer arrested for not paying.
- Demand taxes be paid without giving the taxpayer the opportunity to question or appeal the amount owed.

Taxpayers who do not owe taxes and have no reason to think they do should:

- Report the call to the Treasury Inspector General for Tax Administration.
- Report the caller ID and callback number to the IRS by sending it to phishing@irs.gov. The taxpayer should write "IRS Phone Scam" in the subject line.
- Report the call to the Federal Trade Commission. When reporting it, they should add "IRS Phone Scam" in the notes.

If you ever get a call that you question its authenticity, get the callers name, company name, their title and a callback number – then hang up and call the customer service number (found on the Internet, credit card or other published sources) to find out if it is, in fact, legitimate. If you have an issue making the determination, then feel free to contact me and I will assist you. Bottom line – I do not want anyone to be separated from their money or identity! You must be alert – especially older people who are less aware of online and virtual fraud. If you have elderly parents or loved ones, constantly remind them to be leery of unsolicited calls where they are being asked for personal information. You cannot trust caller ID – it can easily be spoofed to appear as a legitimate caller. When you see a caller ID that displays a state name (like California), almost always it is a scammer calling.

I bought a device a couple of years ago called a *Digitone Proseries Blocker* that does a fairly decent job of blocking known scammer calls. Plus, it is easy to add new numbers to the database if one gets through. It is not perfect, but it certainly helps. I actually have two of these – one for our house line, and the other for the business line. They are available on Amazon. They work with regular land lines as well as VOIP (Internet) phone lines. Just food for thought.

Finally, be especially aware of scammers sending text messages with links. Many tell you about some major purchase just made and invite you to click on a link to talk to customer service and cancel the transaction. Your first reaction is to click on the link and stop the transaction before your credit card gets hit. But there actually was no charge – *it is all bogus.* If you call the number, at some point you will be asked to provide your personal and account information so that the credit to your account can be processed. All that will happen is that your account *will be hit* with some crazy charge – and it may be a real chore trying to get that charge reversed!! Best solution – delete the text message.

As I am thinking about this, there is another type of scam that has been going around. You get a call and the caller asks, "*Is this* ________________ *(your name)?"*

Your natural reaction is to say, "yes." Then hang up and you wonder what just happened. They now have a recording of *your voice* saying 'yes." They will formulate a question and ask it while a voice recorder is running (*such as, I this Julie James, and do you agree to subscribe to [some service or product offering]?* Then they play from another device your own voice saying *"yes."* Then, they will process something likely that is not good for you! If you later challenge or protest the charge, they have a recording of you being asked a question and responding 'yes' to it. You may be out of luck getting it reversed or canceled.

One choice for an answer when getting such a question: "***Who wants to know?"*** Just try to avoid saying "yes" to a question out of the blue asking you to confirm your name.

I hope that you find the information in this newsletter of value to you.

Very truly yours,

*Dick Norton*

*This newsletter is not intended or written by me to constitute written advice that you may rely upon to avoid penalties that may be imposed by any taxing authority. Selection of a tax entity may have considerations beyond simply its tax treatment. Therefore, I advise clients to always first consult with an attorney who is intimately familiar with business forms and their relevance to potential future tax and financial issues.*