



HONECK ·
O'TOOLE

...where people count

3rd Quarter 2022

renew

Ideas to help small businesses and individuals
maximize income while minimizing taxes.



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HOW TO RETAIN EMPLOYEES AND POTENTIALLY LOWER YOUR BUSINESS TAXES

If you run a business with fewer than 100 employees... you can possibly lower your annual tax bill by establishing a retirement plan, a very attractive benefit for appealing to and retaining staff members.

We mentioned in our second quarter newsletter that Maine's IRA mandate phases in next year, unless you already have a plan. **Instead of participating in Maine's**

Roth IRA, act now and choose a plan that better suits your business...and get a tax credit for doing so!

Under the IRS Retirement Plan Start-Up Costs Credit, for the initial three years after starting an SEP, SIMPLE IRA, or qualified plan, such as a 401(k), you may qualify to claim a tax credit of up to \$5,000 each year for those years, for the ordinary and necessary costs to set up and administer the plan, and to educate your employees about it. This will reduce your tax liability on a dollar-for-dollar basis.

The credit amount is limited to the greater of \$500 for a single employee or \$250 per employee up to \$5,000 total. If your costs are \$12,000 per year for the first three years and you had just one employee, you would receive a \$500 credit for each of the three years. If you had five employees, the credit would be \$1,250 each year (5 employees multiplied by \$250 per employee). If you had 25 employees, the credit would max out at \$5,000 each year.

If you elect to take the credit, you can't also deduct the startup costs on your tax return. It's either the credit or the deduction, but not both for the same expenses.

Here's a quick snapshot of what it takes to qualify:

- You have 100 or fewer employees who received at least \$5,000 of compensation in the year before you start a plan;

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2022 TAXES: WHERE DO YOU STAND?

If you made a significant change in your life this year — bought property, sold property, got a job, lost a job, changed jobs, had a child, changed your marital status, started a business, sold stock, retired, or any other life change — we can help you look at how this may affect your financial picture... especially your 2022 taxes.

The sooner you know, the better, so you can plan for the rest of 2022 and perhaps make some beneficial changes.

Contact us for an appointment:
207-774-0882 or info@honeckotoole.com.

Your Honeck O'Toole Team

DUE DATE REMINDERS: EXTENDED TAX FILING

September 30th:
Extended due date
for calendar year
Trusts and calendar
year Estates

October 17th:
Extended due date
for Individual Tax
Returns &
calendar year
Corporations



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HOW TO RETAIN EMPLOYEES, *cont.*

- You have at least one participant considered a “non-highly compensated” employee (earning \$120,000 or less per year and NOT a company owner); and
- You didn’t have a qualified plan during the three previous tax years before starting a plan.

Thinking about offering a retirement plan but not sure how to get started? This Department of Labor brochure may help: <https://bit.ly/3zQB4SD>. **Please contact us** at **207-774-0882** or **info@honeckotoole.com** if you’d like to discuss solutions for your company. 📞

OVER 65? YOU MIGHT BE ABLE TO FREEZE YOUR PROPERTY TAXES

Great news! If you’re 65 or older and you own your Maine home, you may be able to “stabilize” or freeze the property taxes on your homestead, thanks to the new **Property Tax Stabilization Program for Senior Citizens**.

Here’s how it works: If you qualify and file an application each year by the December 1st deadline, the tax billed for your homestead will be frozen at the amount you were billed in the prior tax year. And, if you move to another Maine home (even in another municipality), you can transfer the fixed tax amount to a new homestead.

If you qualify and apply by December 1st, Year 1, the amount of your tax bill for Year 2 would be the same as Year 1. As long as you continue filing an application every year, your tax bill will be the same as Year 1. If in Year 10 you miss filing an application but file in Year 11, your tax bill will be what the current Year 11 tax bill amount is, not the Year 1 amount. You may want to start an annual reminder to apply by December 1st each year.

First, see if you qualify.

- You’re at least 65 years old
- You’re a permanent resident of Maine



- You’ve owned a Maine homestead (permanent residence) for at least ten years (The ten-year period does not have to be consecutive or for the same property), and...
- You’re eligible for a homestead exemption on the property you’re claiming

Next, complete an application.

Download the application from the Maine Revenue Services (“MRS”) website here: <https://bit.ly/3AdxIQk...> pick up an application at your local municipal office... or call the Property Tax Division of MRS at (207) 624-5600 to have an application mailed to you. Be sure to submit it by December 1st, 2022, with any required proof, to your local municipality for review and approval. 📄

DON’T MISS THESE CHANGING TAX PROVISIONS

These recent changes may affect you in tax year 2022 and beyond. This is just a partial list, so talk with us to take full advantage of your tax credits and deductions.

EXPIRING PROVISIONS

- **Recovery Rebate Credit:** There are no stimulus check payments in 2022, so there’s no recovery rebate credit for the 2022 tax year.
- **Charitable Cash Deduction:** If you took the standard deduction, the “above-the-line” deduction for up to \$300 of charitable cash contributions (\$600 for married couples filing a joint return) expired at the end of 2021.

CHANGING PROVISIONS

- **Standard Mileage Rates:** The deduction has two rates for 2022. Be sure to document your mileage **by date** for your 2022 tax return.



- From January 1st to June 30th, the rates are:
 - Business driving: 58.5¢/mile
 - Medical driving: 18¢/mile
 - Charitable driving: 14¢/mile
- From July 1st to December 31st, the rates are:
 - Business driving: 62.5¢/mile
 - Medical driving: 22¢/mile
 - Charitable driving: 14¢/mile (this rate hasn’t changed in years!)
- **Child Tax Credit:** This credit changed in 2021, but it reverts to its pre-2021 amount for the 2022 tax year — down to \$2,000 per child. The age limit drops back to 16



DON'T MISS THESE CHANGING TAX PROVISIONS, *cont.*

(from 17). The same is true for the **Child and Dependent Care Credit** — it reverts to pre-2021 limits. In 2021, the credit was \$4,000 for one dependent or \$8,000 for two or more (based on 50% of expenses up to \$8,000 for one dependent and \$16,000 for two or more.) For 2022, the maximum credit drops to \$1,050 for one dependent and \$2,100 for two or more (based on 35% of expenses up to \$3,000 for one dependent and \$6,000 for two or more.) In addition, the credit is phased out when income exceeds \$15,000 for 2022, compared to \$125,000 in 2021.

- **Residential Energy Efficient Property Credit:** This is gone and replaced by the **Residential Clean Energy Credit**.

The retitled credit still applies to expenses related to installing solar electric, solar hot water, fuel cell, small wind energy, geothermal heat pump, and biomass fuel property in the home. The credit was to end by 2024, but it's been extended through 2034. In addition, the credit rate has expanded. The new applicable rates are:

- 26% for property in service before January 1st, 2022;
- 30% for property in service from 2022 through 2032;
- 26% for property in service in 2033; and
- 22% for property in service in 2034.



- **Qualified Plug-In Electric Drive Motor Vehicles Credit:** This credit has been

retitled the **Clean Vehicle Credit** and the credit calculation has changed. The total available credit is \$7,500 for a qualifying vehicle. Under the new rules, the battery capacity has increased from four to seven kilowatt-hours. Also, the vehicle seller is required to provide a report containing all the information you need to claim the credit. An interesting change is that the vehicle's final assembly (as well as some critical individual parts) must have occurred in North America. But that's not the biggest change! Certain used vehicles now qualify for up to a \$4,000 credit under the new **Credit for Previously Owned Clean Vehicles**.



- **Retirement Contribution Limits are Higher:**

The maximum contribution limits for 401(k), 403(b) and 457 plans jump 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.



As always, let us know if you have questions about your specific tax situation. 📧

(Source: <https://www.kiplinger.com/taxes/tax-law/603037/tax-changes-and-key-amounts>)

INDIVIDUAL RETIREMENT ROUNDUP

While the **Retirement Start-Up Credit** from our lead article is not available for personal retirement accounts, we'd like to remind you of many other personal retirement account items before year-end.

Distributions:

Required Minimum Distributions for 2022 must be taken by the end of 2022. To determine if you're required to take a distribution, please review our third quarter 2021 newsletter found here: <https://www.honeckotoole.com/newsletters/>.

If you're over 70½, charitably inclined, and required to take a distribution, you may want to consider a **Qualified Charitable Distribution**. This allows you to distribute a portion (or all, up to \$100,000) of your required minimum distribution directly to a charity, and that portion can be excluded from your taxable income. If you plan to donate anyway, this is a great way to reduce your taxable income.

If you're under 59½ and not required to take a distribution, but want to, please contact us since there may be early distribution penalties.

Contributions:

As an individual, it may be possible to make contributions to a retirement plan outside of your employer's plan at work. The three main types of individual contribution plans are Deductible Traditional IRA, Nondeductible Traditional IRA, and Roth IRA. For all three...

- You (or your spouse) must have earned income and have made the contribution no later than April 15th, 2023 (for 2022 contributions).
- The 2022 maximum contribution is \$6,000, plus an additional \$1,000 for those age 50 and older.

NOTE: The maximum amount you can contribute may be affected by income limitations and if you already have the option to contribute to a retirement plan at work.

Tax Benefits:

There's a current year tax deduction for contributions to Traditional Deductible IRAs (distributions from the account are taxable), but not for Roth IRAs or Nondeductible IRAs (qualified distributions aren't taxable.)

The **Maine Pension Income Deduction** is offered for your Maine taxable income amount. For 2022, the deduction has increased to \$25,000. This is a \$15,000 increase over the \$10,000 deduction allowed in prior years! For 2023, the deduction is \$30,000. For years on or after January 1st, 2024, the deduction is \$35,000. The deduction is available for retirement accounts to which you or your spouse made contributions. 📧

DISCLAIMER: Any accounting, business, or tax advice contained in this communication are not intended as a thorough, in-depth analysis of specific issues, nor a substitute for a formal opinion, nor is it sufficient to avoid tax-related penalties. If desired, Honeck O'Toole would be pleased to perform the requisite research and provide you with a detailed written analysis. Such an engagement may be the subject of a separate engagement letter that would define the scope and limits of the desired consultation services.



CLIENT PROFILE

CAMP KINGSWOOD, BRIDGTON, MAINE

Jodi Sperling & Mitch Morgan,
Owners/Directors



When you imagine going to Maine summer camp as a child, think of Camp Kingswood in Bridgton as the ideal. Its serene lakefront environment has welcomed a few hundred campers each year... for more than 110 years. Jodi Sperling and Mitch Morgan bought the camp in 2020 — the first summer of the pandemic. Jodi said, "Taking over a camp in COVID was considered crazy! For the first time in the 100+ year history of summer camps in America, most camps cancelled their 2020 summers and the industry was at risk of tanking completely. Here we were, meeting with the Boston Jewish Community Center with an offer, and no one knew if 2021 would be normal or cancelled again. Still, after both running non-profit camps, Mitch and I shared a dream of owning a camp. We knew that COVID presented a one-time opportunity."

The dream paid off as Camp Kingswood was home to 400 children and teens from across the world in 2022. Jodi and Mitch made several improvements including, "Expanding our waterfront to add a third boating dock, launching a new sailing program, sending every grade on their own unique Maine adventure trip, growing our Farm Program launched in 2021... and starting a mountain biking program."



Jodi Sperling Mitch Morgan

campkingswood.org

"Overnight camp is important for the healthy social and emotional development of young people," Jodi noted. "Especially coming out of COVID, camp is needed more than ever. It offers kids a safe space to learn and practice important life skills like making friends, navigating social situations, and working as part of a team." For information about the summer 2023 season, visit CampKingswood.org. 📱

CALL FOR ASSISTANCE ANYTIME!

We welcome your questions about taxes, financial planning, estate planning, making the most of QuickBooks, or anything else related to your money.

Phone: 207-774-0882

Email: info@honeckotoole.com



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