

IRS Announces Mid-Year Optional Vehicle Mileage Rate Increase

With gas prices soaring it has been expected the IRS would increase the mileage rate that business owners can deduct for vehicle use instead of keeping a record of actual expenses. Sure enough, the IRS recently announced a 4-cent increase in the optional mileage rate for the last half of 2022.

The new rate for deductible medical or moving expenses (available for active-duty members of the military) will be 22 cents for the last 6 months of 2022, also up 4 cents from the rate effective at the start of 2022. These new rates become effective July 1, 2022.

Optional Mileage Rate for 2022		
Purpose	1/1 through 6/30/22	7/1 through 12/31/22
Business	58.5¢	62.5¢
Medical/Moving	18¢	22¢
Charitable	14¢	14¢

The standard mileage rate for businesses is based on a study of the fixed and variable costs of operating an automobile. The rate for medical and moving purposes is based on the variable costs as determined by the same study. The rate for using an automobile while performing services for a charitable organization is statutorily set and has been 14 cents for over 20 years.

The standard mileage rate is determined annually by the IRS using data from a study conducted by an independent contractor of vehicle-operating expenses based on the prior year's costs. The rate includes:

- Gas,
- Oil,
- Lubrication,
- Maintenance and Repairs,
- Vehicle registration fees,
- Insurance, and
- Straight-line depreciation.

Not included in the standard rate, and deductible in addition to the optional rate, are:

- Parking,
- Tolls, and
- State and local property taxes attributable to business use.

Sales tax paid when the vehicle is purchased must be capitalized into the business basis of the vehicle, so it isn't separately deductible.

A taxpayer may not use the business standard mileage rate for a vehicle after using any

depreciation method under the Modified Accelerated Cost Recovery System (MACRS) or after claiming a Section 179 deduction for that vehicle. In addition, the business standard mileage rate cannot be used for any vehicle used for hire or for more than four vehicles used simultaneously.

Taxpayers always have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rates, which may produce a better result considering the skyrocketing fuel prices. Taxpayers can also switch from using the optional mileage rate in one year to actual expenses using straight line depreciation in the next year.

Please give this office a call if you have questions about the new rates or related to switching methods or which method you should use when putting a vehicle into service.

Tips for Students Planning to Work During the Summer

As the summer break from school approaches, many students are looking for part-time summer employment. Both parents and students should be aware of the tax issues that need to be considered when working a summer job. Here is a rundown of some of the more common issues:

- **Completing Form W-4** – The W-4 form is used by employers to determine the amount of tax that will be withheld from an employee's paycheck. Students with multiple summer jobs will want to make sure that all of their employers are withholding an adequate amount of taxes to cover their total income tax liability. Generally, a student with income only from summer and part-time employment, and who is claimed as a dependent of someone else, can earn as much as \$12,950 (the standard deduction amount for 2022) without being liable for income tax. However, if the student has investment income, the tax determination becomes more complicated because, as he or she is a dependent of another, special rules apply.
- **Watch Out for Payroll Surprises** – Some employers may attempt to avoid their payroll tax liabilities by paying the student in cash and incorrectly treating them as an independent contractor, thus leaving the student with the responsibility of paying both the employee's and employer's payroll tax liability (see self-employment tax below). If a potential employer intends to do that, they will generally ask the student to complete a Form W-9 rather than a W-4 or simply ask for their Social Security Number (SSN) without requesting a W-4.
- **Tips** – A student who works as a waiter or a camp counselor may receive tips as part of their summer income. All tip income received is taxable income and is therefore subject to federal income tax. Employees are required to report tips of \$20 or more received while working with any one employer in any given month. This reporting should be made in writing to the employer by the tenth day of the month following the receipt of tips. The employer withholds FICA (Social Security and Medicare taxes) and income taxes on these reported tips, then includes the tips and wages on the employee's W-2.
- **Odd Jobs** – Many students do odd jobs over the summer and are paid in cash. Just because the payment is in cash does not mean that it is tax-free. Unfortunately, the income is taxable and may be subject to self-employment taxes (see next). These earnings include income from odd jobs like dog walking, babysitting, and lawn mowing.
- **Self-Employment Tax** – When a student works as an employee, the employer withholds Social Security tax and Medicare tax from the employee's pay, matches the amount dollar for dollar, and remits the combined amount to the government. On the other hand, a student who is self-employed is required to pay the combined employee and employer amounts on their own (referred to as self-employment tax) if the net earnings are \$400 or more. This tax pays for future benefits under the Social Security system and Medicare Part A. Even if the student is not liable for income tax, this 15.3% tax may apply to a student's odd jobs.

- **Working for Parents** – A child under the age of 18 working in a business solely owned by his or her parents is not subject to payroll taxes. This saves the child from having to pay the 7.65% payroll taxes and also provides the parent with relief from payroll taxes. The payroll tax exception won't apply if the parent's business is set up as a corporation.
- **ROTC Students** – Subsistence allowances paid to ROTC students participating in advanced training are not taxable. However, active duty pay – such as pay received during summer advanced camp – is taxable.
- **Newspaper Carrier or Distributor** – Special rules apply to services performed as a newspaper carrier or distributor. An individual is a direct seller and treated as self-employed for federal tax purposes if he or she meets the following conditions:
 - They are in the business of delivering newspapers;
 - All of their pay for these services directly relates to sales rather than to the number of hours worked; and
 - They perform the delivery services under a written contract which states that they will not be treated as an employee for federal tax purposes.
- **Newspaper Carriers or Distributors Under Age 18** – Generally, newspaper carriers or distributors under age 18 are not subject to self-employment tax.
- **Retirement Plan Contributions** – Putting away money for retirement is probably the last thing a student will want to spend their summer earnings on. However, having earned income opens up the opportunity to make traditional and Roth IRA contributions.

If you are a student or the parent of a student with questions about these or other issues associated with student employment, please call this office for assistance.

Tax Tips for Recently Married Taxpayers

This is the time of year for many couples to tie the knot. When you marry, here are some post-marriage tips to help you avoid stress at tax time.

1. **Notify the Social Security Administration** – Report any name change to the Social Security Administration so that your name and SSN will match when filing your next tax return. Informing the SSA of a name change is quite simple. File a Form SS-5, Application for a Social Security Card at your local SSA office. The form is available on [SSA's Web site](#), by calling 800-772-1213, or at local offices. Your income tax refund may be delayed if it is discovered your name and SSN don't match at the time your return is filed.
2. **Notify Those Paying You as a Contractor** – If you are a self-employed sole proprietor filing your business income and expenses on a Schedule C, and you have a different name now that you are married, notify anyone who has been issuing you a Form 1099-NEC under your Social Security number about the name change. This will prevent a mismatch with the IRS.
3. **Notify the IRS** – If you have a new address, you should notify the IRS by sending in a completed [Form 8822](#), Change of Address. If your state has an income tax, also notify the appropriate tax agency.
4. **Notify the U.S. Postal Service** – You should also notify the [U.S. Postal Service](#) when you move so that any IRS or state tax agency correspondence can be forwarded.
5. **Review Your Withholding and Estimated Tax Payments** – If both you and your new spouse work, your combined income may place you in a higher tax bracket, and you may have an unpleasant surprise when we prepare your joint return for the first time. On the other hand, if only one of you works, filing jointly with your new spouse can provide a significant tax benefit, enabling you to reduce your withholding or estimated payments. In either case, it may be appropriate to review your withholding (W-4 status) and estimated tax payments, if any, for the year to make sure that you are not going to be under-withheld and that you don't set yourself up to receive bad news for the next filing season. Even if no adjustment is needed with your tax withholding,

you will still need to advise your employer of your new marital status and name change, if applicable.

6. **Notify the Marketplace** – If you or your spouse have health insurance through a government Marketplace (Exchange), you must notify the Marketplace of your change in marital status. If you were included on a parent's health insurance policy through a Marketplace, then the parent must notify the Marketplace. Failure to notify the Marketplace can create tax filing problems.

If you have any questions about the impact of your new marital status on your taxes, please give this office a call.

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Scott Jensen
Kramer & Jensen, LLC

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