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Newsletter October 2022

October 2022 Due Dates

October 17 - Individuals

If you have an automatic 6-month extension to file your income tax return for 2021, file Form 1040 and pay any tax, interest, and penalties due.

October 17 - SEP IRA & Keogh Contributions

Last day to contribute to a SEP or Keogh retirement plan for calendar year 2021 if tax return is on extension through October 17.

October 17 - Corporations

File a 2021 calendar year income tax return (Form 1120 or 1120-A) and pay any tax, interest, and penalties due. This due date applies only if you timely requested an automatic 6-month extension.

Will You Benefit from Biden's Student Loan Relief?

On August 24, President Biden announced a three-part plan to deal with student loan debt which includes, among other things, $20,000 in loan relief to borrowers with loans held by the Department of Education whose individual income is less than $125,000 ($250,000 for married couples) and who received a Pell Grant. Borrowers who meet those income standards but did not receive a Pell Grant in college can receive up to $10,000 in loan relief. Current students with loans are eligible for this debt relief.

TARGETED STUDENT LOAN DEBT RELIEF		
	Pell Grant Recipients	Others
Amount To Be Forgiven	Up to $20,000	Up to $10,000
Income Limit	Married Filing Jointly $250,000 Others $125,000	
Note: *This is not a phaseout, $1 over the income limit ends the qualification.*		

Dependents of Another - Borrowers who are dependent students will be eligible for relief based on parental income, rather than their own income.

Who Will Benefit? – Since the forgiveness is targeted to lower income families, per a White House Fact Sheet, nearly every Pell Grant recipient comes from a family that made less than $60,000 a year. Based on that at least 93% of Pell Grant recipients have income less than $60,000 and would qualify for the $20,000 forgiveness.

DISTRIBUTION OF PELL GRANT RECIPIENTS BY INCOME	
Family Income	Percent
$30,000 or Less	66%
$30,001 through $59,999	28%
$60,000 or more	7%
Apparently the White House used rounded numbers thus the total is not 100%	

The Department of Education estimates that, among borrowers who are no longer in college, nearly 90% of relief dollars will go to those earning less than $75,000 a year.

Repayment Pause – Repayments were previously paused as part of the COVID relief. That pause has been extended one last time until December 31, 2022. Borrowers should plan to resume payments in January 2023.

Monthly Payments Cuts - The program would also cut monthly payments in half for undergraduate loans. The Department of Education is proposing a new income-driven repayment plan that protects more low-income borrowers from making any payments and caps monthly payments for undergraduate loans at 5% of a borrower's discretionary income—half of the rate that borrowers must pay now under most existing plans. This means that the average annual student loan payment will be lowered by more than $1,000 for both current and future borrowers.

It is estimated that nearly 8 million borrowers will be eligible to receive automatic relief because income data is already available to the U.S. Department of Education. If not, a borrower will be able to provide that information when the department makes a simple application available in the coming weeks. Watch for additional details.

Normally, per the tax code, when debt is forgiven the amount relived is treated as taxable income. That issue is not addressed in the Fact Sheet from the White House.

If you have questions, please give this office a call.

Electric Vehicle Credit Undergoes Major Overhaul

With the recent passage of the Inflation Reduction Act of 2022, the electric vehicle credit has undergone some major changes. Although most of the changes take effect in 2023, to qualify for the current credit, vehicles purchased after August 15, 2022, are required to meet the final assembly requirement of the new law.

That requirement necessitates vehicles sold after August 15, 2022, undergo final assembly in North America.

"Final assembly" means the manufacturer must produce new clean vehicles at a plant, factory, or other place located in North America from which the vehicle is delivered to a dealer with all component parts necessary for the mechanical operation of the vehicle included with the vehicle.

The U.S. Department of Energy has prepared a **preliminary list** of Model Year 2022 and early Model Year 2023 vehicles that may meet the final assembly in North America requirement.

Although the current law phasing out the credit once a manufacturer has produced 200,000 vehicles has been eliminated beginning in 2023, it still applies for vehicles sold in 2022. Even though those vehicles meet the final assembly requirement, because of the 200,000 limit they may not qualify for credit or reduced credit in 2022 but will again qualify in 2023 under the new rules. The **U.S. Department of Energy list** list tags those that have reached the 200,000 limit. Visit the **IRS site for a list of qualifying vehicles** to see if a vehicle might still qualify for a reduced credit.

- *Transition Rule* - The legislation also provides a transition rule where a taxpayer who, from January 1, 2022, and before August 16, 2022, purchased, or entered a written binding contract to purchase, a new plug-in electric drive motor vehicle and placed that vehicle in service on or after August 16, 2022, may elect to use the credit rules in effect before the Inflation Reduction Act changes, thus avoiding the final assembly and other requirements of the new law.

The New Law – The new law, generally effective beginning January 1, 2023, includes some new stringent requirements including that the critical minerals and other battery components used in the manufacture of a qualifying vehicle be from North America. Because of the current limited availability of these critical minerals this requirement is being phased in through 2029, giving manufacturers time to develop North American sources for these materials.

Also beginning 2023, the law imposes income limits on who qualifies for the credit, as well as limiting the cost of the vehicles eligible for the credit as follows:

- *Income limit* - No credit is allowed for any tax year if the lesser of the modified adjusted gross income (MAGI) of the taxpayer for the:

    - Current tax year, **or**
    - The preceding tax year

Exceeds the threshold amount as indicated in the table below. Thus there is no phaseout; just one dollar over the limit and no credit will be allowed.

MAGI LIMITATION	
Filing Status	**MAGI**
Married Filing Joint & SS	$300,000
Head of Household	$225,000
Others	$150,000

MAGI means adjusted gross income increased by any foreign earned income and housing exclusions and excluded income from Guam, American Samoa, the Northern Mariana Islands, and Puerto Rico.

Manufacturer's Suggested Retail Price Limitation - No credit is allowed for a vehicle with a manufacturer's suggested retail price more than the following:

MANUFACTURER'S SUGGESTED RETAIL PRICE LIMITATION	
Vans, sport utility vehicles, and pickups	$80,000
Other vehicles	$55,000

New Vehicle Definition – Where under prior law a qualifying vehicle was required to have a battery with a minimum of 4 kilowatts-hours, after 2022 a qualifying vehicle's battery must be a minimum of 7 kilowatts-hours.

Transfer of Credit to the Dealer – After 2022, the new law adds an interesting twist that allows a taxpayer to utilize the credit to reduce the vehicle's cost. This is accomplished by the taxpayer, who, on or before the purchase date, can elect to transfer the clean vehicle credit to the dealer from whom the taxpayer is purchasing the vehicle in return for a reduction in purchase price equal to the credit amount.

Making the election cannot limit the use or value of any other dealer or manufacturer incentive to buy the vehicle, nor can the availability or use of the incentive limit the ability of the taxpayer to make the election.

A buyer who has elected to transfer the credit for a new clean vehicle to the dealer and has received credit from the dealer but whose MAGI exceeds the applicable limit is required to recapture the amount of the credit on their tax return for the year the vehicle was placed in service.

Credit For Used Vehicles – The new law includes a credit for used clean vehicles that cost $25,000 or less that are purchased from a dealer. This credit is limited to the first time the vehicle is resold, and available only to taxpayers whose MAGI is no more than half that of the MAGI limit for the new clean vehicle credit. The credit amount is the lesser of $4,000 or 30% of the purchase price. However, other details of this credit need further guidance from the IRS. Watch for additional information in the future.

If you have questions about these new rules on the clean vehicle credit, please give this office a call.

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time.

Scott Jensen
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