

W-2 & 1099 time

It's time to prepare W-2's for employees and 1099's for outside service providers.

Remember that there are penalties for inaccurate information, so check your records for accurate (including spelling):

- Payee first and last names
- Addresses
- Social Security Numbers

If you are missing any information, give a W-9 form to the payee to complete. If in doubt, send a W-9. You can download a printable W-9 form at www.irs.gov/pub/irs-pdf/fw9.pdf, or call our office and we will send one to you.

W-2's and 1099's need to be out to workers by Jan. 31, and also be filed with the government by Jan. 31. During the past year, we have seen penalties imposed for missing or inaccurate forms.

The 1099 forms are required for payments of \$600 or more to non-incorporated entities (including LLC's) for rent, interest paid or services rendered.

Income for independent contractors ("non-employee compensation") is reported on Form 1099-NEC, while rent, attorney payments and other types of income will be reported on Form 1099-MISC.

Annual sales tax licenses

Most businesses received the bill for the \$20 Municipal Tax License fee with the ADOR annual license renewal in mid-December. That fee and the no-cost state license renewal are handled by ADOR. If you need help with the forms, please turn it in with your December work so we can fill it out and send it back.

The City of Tucson's \$50 annual business license fee is billed separately and must be paid to the city, not to the state along with state fee. It can be paid by

mail, at a city cashier, or online at www.tucsonaz.gov/inet/.

It's COLA time

IRS released inflation adjustments for 2022 shortly before year end. Some key numbers:

-- Maximum wages subject to Social Security tax rises to \$147,000 from \$142,800 in 2021. There is no limit for wages subject to Medicare tax.

-- The standard deduction increases by \$800 to \$25,900 for married couples. For single filers, the standard deduction increases by \$400 to \$12,950.

-- The limitation on itemized deductions is eliminated, after being in place for the past four years. The 7½% threshold for medical expenses also now is permanent.

-- The contribution limit for 401(k) plans bumps up \$1,000 to \$20,500. The catch-up limit for employees aged 50 and over remains at \$6,500.

-- IRA contribution limits are not subject to cost-of-living adjustment so they stay at \$6,000 with an additional \$1,000 for age-50 workers.

-- The income limit for the Saver's Credit (also known as the Retirement Savings Contributions Credit) rises \$2,000 to \$68,000 for married filing jointly, and by \$1,000 to \$34,000 for single filers.

-- For health flexible spending arrangements, up to \$2,850 may be contributed in 2022.

-- The annual exclusion for gifts in 2022 is \$16,000 per person, up from \$15,000 in 2021.

-- The estate tax exclusion will be \$12.06 million for people who die in 2022, up from \$11.7 million in 2021.



Client News



J&J Business Service, Inc.

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ESTABLISHED 1945

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February, 2022

Free

It's in the mail

IRS began accepting tax returns Jan. 24 and also has been sending two letters you (or your tax preparer) will need to file your 2021 return.

Many people are intimidated by mail with a return address for the Internal Revenue Service, but make sure you open these envelopes.

Parents who received advance Child Tax Credit payments during the second half of 2021 will get Letter 6419. This letter records the total paid during the year.

The payments were an advance against the Child Tax Credit on the tax return, so they will have to be reconciled on the return. If you didn't get as much as you are eligible for, the balance will come as additional refund on the tax return.

There are income limits for the Child Tax Credit. If your income increased above those limits, you may face the unpleasant surprise of having to pay back some of the payments you received.

IRS has an online Child Tax Credit Update Portal where families can check their eligibility and payment records. It is at <https://www.irs.gov/credits-deductions/child-tax-credit-update-portal>.

The second envelope is Letter 6475, reporting your third Economic Impact Payment (EIP), paid out last spring. It also needs to be reconciled on your tax return, and could also create an extra refund if you didn't receive the full payment last year.

Taxpayers also can find their EIP history at the IRS Online Account tool at <https://www.irs.gov/payments/your-online-account>.

Another letter you may need, although it doesn't come from IRS, is Form 1095-A if you had health insurance through the



Healthcare Marketplace and got a subsidy for the premiums.

The 1095-A comes from Healthcare.gov and you can find your form online at <https://www.healthcare.gov/taxes/>

Another piece of information you'll need for your tax return is a record of virtual currency (Bitcoin and similar) transactions. The tax return asks if you had any cybercurrency transactions and IRS has been sending Letter 6173 or 6174 to virtual currency owners who have not reported transactions on past returns.

IRS has a Virtual Currencies web portal at <https://www.irs.gov/businesses/small-businesses-self-employed/virtual-currencies> for more information.

Getting ready

IRS advises people to get their records together and file early this year. The agency is still bogged down with 6 million 2020 returns, mostly paper, that it has not yet processed.

Because of the preliminary checks done before a return is accepted, electronic filing drastically reduces the number of mistakes on returns and in turn speeds up refunds.

If you are due a refund, ask for direct deposit to your bank account. The electronic funds transfer is faster and safer than waiting for a check in the mail.

Mileage rate rises

The standard mileage rate for business driving raised two and a half cents to 58½ cents per mile for 2022.

Medical mileage is 18¢ for 2022, up two pennies from 2021. The rate for driving for charitable purposes is fixed by law and stays at 14¢.

Going per-diem

Travel recently has surged, reaching pre-pandemic levels. While a sizable portion is pent-up desire for vacations, business travel also has returned.

The per-diem rates, issued by the federal Government Services Administration (GSA) and recognized by IRS, are largely unchanged from 2020. The rates are issued for the federal fiscal year, October through September, so current rates expire as of Oct. 1, 2022.

The current standard per-diem rate is \$155, consisting of \$96 for lodging and \$59 for meals and incidental expenses (MIE). However, there are 319 non-standard areas (NSAs) that have per diem rates higher than the standard rate.

The \$96 lodging rate is the same as for Fiscal Year 2020, while the standard MIE rate increased \$4 to \$59 this year.

Truckers and transportation industry taxpayers have a higher MIE per-diem, \$69 in the continental United States (CONUS) and \$74 elsewhere.

Claiming the per-diem rate simplifies recordkeeping for business travelers and their employers. Keeping track of all those receipts can be challenging while traveling.

Per-diem rates offer an alternative to reimbursement based on detailed expense records and documentation. They allow businesses to easily determine reimbursements for traveling employees and to deduct the amounts paid without expense reports and receipts.

A coronavirus relief provision lets travelers take a 100% deduction for food or beverages bought from restaurants during 2021 and 2022. Next year, the allowable deduction is scheduled to return to 50% of the actual expense or the MIE per-diem paid.

An IRS clarification issued in November has a special rule that allows the taxpayer to treat the full meal portion of a per diem

rate or allowance as being attributable to food or beverages from a restaurant during 2021 and 2022. Food bought from non-restaurants (such as convenience stores, groceries and vending machines) is still subject to 50% deduction.

For more information on per diem rates, visit www.gsa.gov/perdiem.

Ad wars

Anyone plopping in front of a TV for a while has been confronted with ads for stock broker advisory services and "fiduciary" investment managers. So, what to believe?

The differences come down to licensing and compensation models. Which is better depends on an individual's degree of knowledge and hands-on investment activity.

Stock brokers ("registered representatives") must pass the Financial Industry Regulatory Authority (FINRA) Series 7 exam to be licensed to sell stocks, bonds, exchange-traded funds (ETFs), and op-

tions as well as mutual funds and variable annuities. They typically will be paid by commissions on the trades they execute.

Fiduciary "registered investment advisors" (RIAs) must pass the Series 65 (or the Series 63) exam. The Series 65 license is for individuals who provide fee-based investment advisory services but does not allow them to sell most kinds of securities.

In addition to the federal licenses, many financial planners also hold state-issued insurance licenses.

Fiduciary advisors are paid on a fee basis, typically a percentage of the assets "under management."

For a knowledgeable investor who "buys and holds," a commission broker may be preferable, where there is just one charge when an investment is bought or sold. Conversely, someone who wants guidance for a comprehensive investment plan may choose a fiduciary advisor where there are ongoing fees.



Tucson minimum wage

If your business is located within the city limits of Tucson, another minimum wage increase took effect Apr. 1.

Tucson's Proposition 6, passed last November, raises the Tucson minimum wage to \$13 per hour. For workers who receive tips, employers still can pay up to \$3 per hour less (\$10/hour), as long as the employee receives at least the minimum wage for all hours worked each pay period, when tips are added to the wages paid.

Employers outside Tucson are still under the statewide Proposition 206 passed by voters in 2016 and currently are required to pay \$12.80 per hour. The statewide measure indexes the minimum wage annually while the Tucson initiative steps up the minimum wage to \$15 in 2025.

TPT Exemption Certificates

If your business sells to resellers, you are most likely familiar with Arizona Forms 5000 and 5000A, TPT General Exemption Certificate and Arizona Resale Certificate.

The 5000A is used for resellers while the more general 5000 form is for other types of tax-exempt sales, such as to Native Americans on reservations.

These forms, when properly filled out and current, allow a business to sell goods to designated customers and not collect sales tax.

The key here is "properly filled out and current." These forms must be resubmitted on a yearly basis and be for a specific period.

You may be requested to renew your form with your suppliers as it is the same

forms that allow you to purchase products you intend to resell in your normal course of business.

As COVID restrictions are relaxed, we expect to see an increase in Arizona Department of Revenue audits checking if these forms are accurate and current. If they are not, you may be in for a large tax bill for sales you recorded as resale but don't have proper records to substantiate.

Both forms can be downloaded at <https://azdor.gov/forms/tpt-forms> or contact our office and we will provide them to you.

Surcharge stricken

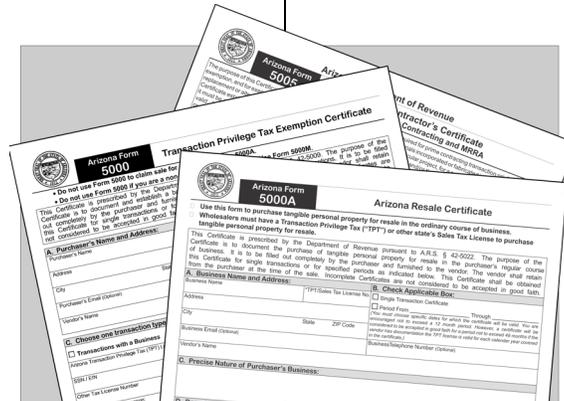
The Arizona Supreme Court ruled in March to prohibit the state from collecting the 3½% income tax surcharge created by Proposition 208 in 2020.

The surcharge was in addition to the top regular income tax rate of 4½%, resulting in a top combined rate of 8%. It would have applied to taxpayers with incomes over \$250,000 (\$500,000 for married couples filing jointly).

Tax reform passed by the state legislature in 2021 capped the top tax rate at 4½%, nullifying the surcharge.

Taxpayers who have already filed their 2021 income tax returns based on the surcharge do not need to amend. The Department of Revenue is working on a process to automatically adjust returns filed with the surcharge.

The 2021 tax reform phases in a flat tax of 2.5% for nearly everyone over the next four years, eliminating the state's progressive taxation system.



Tucson 411

The City of Tucson is holding a special, one-item election on May 17. Proposition 411 would extend the current half-cent sales tax passed by voters in 2017.

The 2017 measure, Proposition 101, is due to expire at the end of this June. If it passes, Prop 411 will take effect July 1, extending the temporary sales tax increase for 10 more years.

Prop 411 wouldn't raise the sales tax beyond the 8.7% currently in effect but if it fails, the sales tax rate would decrease to 8.2%.

Tucson's 8.7% sales tax consists of 5.6% state tax, 0.5% Pima County tax, 2% Tucson base rate, 0.5% roads and public safety and 0.1% zoo improvements.



Fluffy Puppies

Just when you think you heard of all the wild economic forecast models, here's a new one: The Fluffy Puppy Indicator (FPI) is warning of a potential recession ahead.

As ludicrous as it sounds at first, the FPI is actually based on some solid statistics.

In March, sales of pet supplies (non-food items that pets don't need to live) fell 1.9%, according to the latest data from Nielsen. That's a sharp change from the previous three months' average increase of 3.6%.

Pet grooming sales also plunged 19.2% while dog accessories fell 12.1% and pet bed sales declined 12.7%.

A Morgan Stanley analyst explained the pullback in consumer behavior. "We love our pets. We won't starve them to death, but maybe not buy the extra toy as a discretionary purchase. Those types of pur-

chases are exactly the kinds of things we think will suffer first [in a slowdown]."

New K-2 and K-3

If you filed a tax return for a pass-through entity (S-corporation, partnership, LLC) this spring, you may have noticed an extra pile of paper.

Starting with 2021 returns filed this year, IRS has added two new schedules, K-2 and K-3.

The 19-page K-2 and 20-page K-3 are for pass-through businesses where at least one of the partners file a Form 1116, Foreign Tax Credit.

The forms could be expected if the business has either foreign activities or

any foreign owners. However, they may also be required for entirely domestic companies where a partner or shareholder claims a foreign tax credit resulting from other investments.

The complexity comes because the foreign tax credit involves a proration between US source and foreign source income and taxes paid. That calculation is done in the individual's tax return but relies on information reported by various businesses the taxpayer is involved with.

After months of turmoil, IRS announced in February rules to help businesses that don't have foreign activities or owners. Those companies do not have to file the cumbersome forms if they don't know that any partner or shareholder needs the information about "items of international relevance."

Too much cash?

Deutsche Bank observed that U.S. households have more cash than debt, for the first time in three decades. The bank warns that could fuel inflation.

Prop passes

More than 70 percent of Tucson voters approved Proposition 411 May 17, extending the city's half cent sales tax for ten years.

The temporary additional sales tax was passed in 2017 and expires this June 30. The extension takes effect on July 1, so merchants will not have to reprogram their cash registers.

The \$740 million in anticipated revenue will pay to improve neighborhood streets and street safety.

What's the Fed mean?

Inflation is the highest in 40 years: the news is daunting, and business owners see it in higher costs of products, freight, and even labor.

Now the Federal Reserve Banks (Fed for short) are raising the interest rate to rein in inflation. Many business loans have adjustable rates, so businesses will see higher costs for borrowing.

The Fed's presumption is that higher interest rates will prompt people to borrow less, and that reduced spending will stall inflation.

That's bad news for businesses in both ways: higher loan payments and lower sales. Businesses small and large have already been struggling with bleak sales due to supply chain problems, shortages and leaping costs.

EV's charge

Not everybody is worried about the surge in gas prices. Data collection firm Experian reports that new registrations of electric vehicles (EV's) have jumped 60% in 2022 over a year ago.

Although numerous manufacturers have joined the electric car field, Tesla still has 70% of the market. Tesla models

commanded the top three slots in number of registrations this year.

The EV leap is especially noteworthy because overall new car registrations are down 18% from 2021. The computer chip and component shortage has been blamed for much of the sales downturn.

While electric cars are fine for businesses such as Grubhub, most businesses need beefier transports such as trucks. While several electric pickups have hit the market this year, essentially all were presold so orders are now being taken for 2023 models.

Going bigger, several companies are developing electric 18-wheel semi trucks. BMW has had EV 18-wheelers on the road in Germany since 2015, but they could go only about 60 miles before recharging. Tesla announced a sleek 18-wheeler in 2017 but isn't delivering them yet.

California was the first state to mandate that truck makers begin transitioning away from diesel for medium- and heavy-duty vehicles, starting with the 2024

model year. Fourteen other states have since adopted the same requirement.

COVID shifts consumer trends

The home has become the hub, according to researchers analyzing the business impact of COVID.

Originally, online shopping put small, local businesses at a disadvantage to Amazon. Increasingly, shoppers want "everything delivered" which opens opportunities for local businesses.

Many products traditionally bought in-store consumers now want delivered, from food to plants, according to analysts at "Exploding Topics." While some businesses may deliver themselves, many partner with courier services and new services such as DoorDash and Uber.



IRS ups mileage rate

Because of much higher gasoline prices this year, the IRS announced last month that the standard mileage rate will be 62½ cents per mile for the second half of 2022.

For January through June, the mileage rate for business driving was 58½ cents. The new rate took effect July 1.

The rate for medical mileage and military moves also increased, to 22 cents from 18 cents in effect for the first half 2022.

The IRS normally updates the mileage rates once a year in the fall for the next calendar year.

High gas prices hit lower income households the hardest, a new study found. If prices reach \$6 per gallon, drivers earning less than \$40,000 a year may spend up to 38% of their take-home pay for gas, while those making more than \$150,000 could pay up to five percent of their earnings at the pump.



Social Security may jump

This year's high inflation may mean a hefty bump for Social Security recipients next year.

Social Security's annual report in June projected a 3.8% cost-of-living adjustment (COLA) for next year. However, that figure was based on February data.

The agency's chief actuary said that COLA increase could be "closer to 8%" given the latest inflation data.

He noted that "cost-of-living adjustments for beneficiaries lag behind. So, ... current retirees are not seeing an immediate change in benefits that matches the inflation we are all experiencing."

That rise in benefits may also shorten the time until the Social Security trust funds are depleted. The report tagged 2033 as the year funds run out and benefits will be cut.

Graduation gift

Vegan burger restaurant Pinky Cole offered 800 graduates of Clark Atlanta University this year their own limited liability companies.

Founder of a four-year-old restaurant chain, Cole told students that an LLC was their "path to entrepreneurship." Students wildly cheered the news at the recent graduation ceremony.

About half of the students have taken up Cole on her offer so far. She added that she sees entrepreneurship as a means "to create generational wealth for you and your families," and noted that she wanted to give something to

her alma mater "that would resonate with their futures."

Mexico trade rebounds

Trade between Mexico and the US in the first quarter of 2022 have surpassed pre-pandemic levels, according to the University of Arizona's Economic and Business Research Center.

During the first three months this year, \$75.9 billion of goods were exported to Mexico, up 19% above the 2019 period. Imports from Mexico during that time totaled \$106.2 billion, 23% more than in 2019.

Approximately 4.5% of all U.S.-Mexico trade goes through the Nogales port of entry. The Laredo, TX, port handles 52%.

Recession or not?

The economy is giving very contradictory figures as to whether we are going into a recession (or are already there).

Rampant inflation, the most in 40 years, is prompting the Federal Reserve to raise interest rates. Conventional wisdom is that higher interest rates will slow borrowing and sales, in turn lowering inflation.

The wildcard is that, after two years of reduced spending during the pandemic, Americas have \$813 billion in savings. Companies have more cash than before the pandemic as well. Personal and corporate cash adds up to \$3 trillion.

Retirement accounts are also at record levels, reported Vanguard. Of course, gains made last year may have been erased by stock market declines this year.

Despite that cash, recent research discovered that 58 percent of Americans live paycheck to paycheck. And, that's not just low-income people. Even 30 percent of those with incomes above \$250,000 reported living paycheck to paycheck. "It's all of us," said LendingClub's CEO.

Consumers are continuing to spend, although their patterns are shifting. Travel and hospitality industries are the biggest beneficiaries of that money.

About 40 percent of monthly household budgets are spent on restaurants now, according to digital platform PopMenu. Quality, convenience, and value are now top of mind for consumers, a PopMenu study reported. It found that 29 percent of consumers believe it is cheaper to order from restaurants rather than buy the ingredients needed to cook a meal.

With all these mixed signals, how can a small business plan ahead? Focus on the standard business basics: listen to cus-

tomers and fulfill their needs, market to bring in new customers, watch costs (especially with inflation and supply chain disruptions), keep overhead low, set prices to allow profit, and remember cash is king.

Checking out

Self-checkout machines have become widespread in grocery and big-box stores, despite many consumers hating them.

In 2020, 29% of transactions at food

retailers were handled through self-checkout, according to the food industry association.

Making shoppers do the store's work dates back to the early 1900's, when Piggly Wiggly first let shoppers roam the aisles, pick items off the shelves and

pay at the register.

Self-checkout machines first appeared in 1986 but didn't catch on until the early 2000's. They were intended to cut cashier labor costs ... But also spawned more high-paid IT jobs.

The expensive machines also require more maintenance and employees are still needed to handle problems and help customers.

Self-checkouts have lead to some unanticipated issues. Research shows customers buy fewer items when they do the checkout themselves.

Also, losses are higher -- as much as 77 percent more. Those losses are due to both honest customer errors as well as intentional theft enabled by lax oversight.

Self-checkout generally isn't faster than traditional cashiers, but customers may feel it is because they are doing something other than waiting.



Piggly Wiggly supermarket in 1918

No breaks

Small business owners largely did not benefit from pandemic-related tax credits and payroll tax deferrals, according to a Government Accountability Office report.

Only about 7% of small business owners were able to claim the employer and self-employed leave credits or payroll tax deferrals.

"Our review of relevant tax forms found that claiming the provisions was a complex process," said the report. "Small business representatives said it was hard to get clear information from the IRS."

Sales tax holidays

You might not have noticed, but not everybody pays sales tax on back-to-school stuff. Well, they do in Arizona, but not in 17 states, including our neighbors to the east from New Mexico to Mississippi and Illinois.

The idea is to make it easier for families buying for their kids' school needs.

Families with children in elementary and high school expect to spend an average of \$864 on back-to-school clothes, supplies, electronics and other items this summer, according to the National Retail Federation.

Those sales-tax holidays, mostly in August, mostly were for just a weekend to a week. Also, there are typically limits on purchases.

New Mexico for Aug. 5-7 exempted clothing and shoes up to \$100 per item (the \$300 Nikes get taxed), computers up to \$1,000 and school supplies up to \$30 per item.



The notion is nice for families but can be a headache for merchants. Stores have to reprogram their cash registers for a short period of time and then need to break out those sales in the sales tax reports.

Buybacks for you?

If your retirement portfolio has stocks, two big-business provisions in the recently passed Inflation Reduction Act may affect you.

The more publicized one is a 15% minimum tax on large corporations. According to Citigroup, all but about 50 of the S&P 500 companies are already paying tax rates of 15% or more. The new tax will trim around 0.4% off the S&P 500 Index's per-share profits.

The more important provision for individual investors is the 1% excise tax on corporate stock buybacks. The Joint Committee on Taxation estimates that will raise \$74 billion a year.

Profitable companies buy back outstanding shares of stock for several reasons:

- To boost share price: fewer shares available has the effect of raising the stock's price.
- To reduce cash outflows: With fewer shares, the company pays out less in dividends.
- To improve the balance sheet: Fewer assets increases both return on equity and return on assets.

The excise tax may prompt some corporations to reduce buybacks and instead increase dividends. The Tax Policy Center estimates the tax would result in an uptick in dividend payouts of "roughly 1.5%."

Whether it's higher prices for your portfolio or more dividends, individual investors stand to gain from the new rules.

Per-diem rates change little for 2023

Per-diem rates for business travel change only slightly for 2023, announced the federal General Services Administration (GSA).

The standard lodging rate in the continental United States increased to \$98 from \$96 effective Oct. 1, 2022. The standard Meals and Incidental Expenses (M&IE) rate is unchanged at \$59 per day.

The lodging per-diem is higher for locations that are considered more expensive. For Arizona, Tucson is \$104, Phoenix/Scottsdale \$151, Flagstaff/Grand Canyon \$138 and Sedona \$247.



IRS allows taxpayers to claim the federal per-diem rates instead of deducting actual expenses.

While employees no longer can deduct unreimbursed business expenses, many businesses may reimburse employees for business travel at per-diem rates under an "accountable plan."

Actual expenses rather than per-diem must be used for travelers "related to their employer." IRS considers someone related if they are employed by a family member in an unincorporated business or if they own 10 percent or more of the employer's corporate stock.

Self-employed individuals and partners may use per-diem for reimbursements.

Reimbursements under an accountable plan for per-diem amounts are a deduction for the company but are not reported as pay for the travelers. For an accountable plan, the traveler must report the

dates, places and business purpose of the travel to the company.

Lopsided wage growth

Newly available wage data from the Social Security Administration detail the growing income inequality.

While wages for the bottom 90% of the workforce grew by 26% between 1979 and 2019, earnings for the top 1% rose by 160% during the same period.

The average wages for the bottom 90% were \$30,880 in 1979 and \$38,923 in 2019. The top 1% made \$291,329 in 1979 and ballooned to \$758,434 in 2019.

To break into the top 10% nationally in 2019, workers needed to make \$165,782.

Of course, the percentiles vary by state. In Connecticut, it would have taken \$700,800 to fall into the top 1% in 2015 (latest state data available) while a Mississippi worker pulling in \$254,362 would have been in that state's 1%.

Because those figures come from Social Security records, they reflect only earnings (W-2 wages and net self-employment income). They don't take into account other income such as dividends, capital gains (sale proceeds), pensions and the like.

Got text?

Do you feel like your phone is filling up with spam text messages? You're actually right.

Americans received an average of 31 unwanted phone calls each month in 2021, about the same as in recent years. Spam texts, however, jumped to 17 per month, compared to 15 in 2020 and 11 in 2019.

A 2019 federal law, the Pallone-Thune TRACED Act, sought to protect consumers by putting pressure on phone companies to block illegitimate calls, particularly those originating overseas but appearing on caller ID as local numbers.

Tis the season

It's that time of the year when IRS makes a lot of announcements. Here are some highlights:

Small businesses may receive 1099-K forms, Payment Card and Third-Party Network Transactions, where they haven't before. The rules have changed to match 1099-MISC standards, so card processors now will issue 1099-K's when transactions total more than \$600 for the year.

The excitement about Social Security benefits rising 8.7% next year obscures some drawbacks for Social Security recipients as well as employees. The 50% and 85% thresholds for benefits becoming taxable haven't changed, so some recipients may see more of their benefits being taxed next year.

Employees will be subject to Social Security tax on earnings up to \$160,200, a jump from \$147,000 in 2022. Salaries are projected to grow by 4.3%, still short of the inflation rate. The record increase in benefits, however, will shorten the time until the Social Security reserves are depleted.

The contribution limit for 401(k) and similar retirement plans will be \$22,500, up \$2,000 from 2022. The catch-up limit rises \$1,000 to \$7,500 next year. Meanwhile, the limits for contributing to traditional and Roth IRA's stays the same.

The standard deduction for single filers will be \$13,850 in 2023, up \$900 from this year. For married couples, the standard deduction will be \$27,700, up \$1,800.

A number of pandemic relief provisions disappear for 2022:

The \$300 deduction for charitable contributions for non-itemizers is gone this year.



There's no Recovery Rebate Credit (stimulus payments) for 2022.

The Child Tax Credit rolls back to \$2,000 for 2022, and dependent children must be under age 17. The Child Care Credit also reverts back to 35% of up to \$3,000 of expenses.

Taxpayers with no kids have to be 25 or under 65 to claim the Earned Income Credit.

AZ in the act

Arizona's 2.5% flat tax will kick in for 2023, a year earlier than originally planned.

When the legislature passed the law to abolish income tax brackets, it included a provision that the flat tax could be implemented earlier than 2024 if the state's general fund revenue surpassed a threshold.

The state's generally good economy let the treasury meet the requirement, so all taxable income will be taxed at 2.5% starting next year.

For 2022, Arizona's tax brackets are 2.55%, 2.98% and 4.5%.

The 2nd jobbers

Nearly every small business owner is wrestling with The Great Resignation, the paradox where workers are quitting but vacancies aren't being filled.

While certainly many personnel are moving to new employers for better pay or conditions, an overlooked aspect is the decline in multiple jobholders.

Several economists have noted that 8.1 million people held multiple jobs before the pandemic. That number plummeted by more than a third in March 2020. It has recovered to 7.1 million, still down one million positions from the pre-pandemic level.

Merry Christmas!

Our offices will be closed from 2 pm Friday, Dec. 23, through Jan. 2 for the holidays. We will open again on Tuesday, Jan. 3.

The staff of J&J Business Service wish you and your family a most joyful holiday and a bright new year.

Minimum wage rises

Arizona's minimum wage will increase \$1.05 to \$13.85 per hour for 2023. The minimum wage is adjusted annually to the cost-of-living index under Proposition 206 passed by voters in 2016.

The City of Tucson's minimum wage also will be \$13.85. Under the 2021 city proposition passed by voters, the minimum wage for workers within the city limits would be \$13.50 for 2023. However, since that is less than the state minimum, the city will follow the state's \$13.85 rate.

For any employee who regularly receives tips or gratuities, an employer may pay wages up to \$3.00 per hour less than the minimum wage, as long as the employee receives at least the minimum wage for all hours worked each pay period, when tips are added to wages paid.

For more information, visit the state's minimum wage website at <https://www.azica.gov/labor-minimum-wage-main-page>. The Tucson minimum wage webpage is <https://www.tucsonaz.gov/minimumwage>.

W-2's and 1099's

It's not too early to start gathering W-2 and 1099 information.

Early in January, our office will mail 1099 request forms. The 1099 forms are required for payments of \$600 or more to

non-incorporated entities (including LLC's) for rent, interest paid or services rendered.

If you are missing any payee information, give a W-9 form to the payee to complete. You can download a W-9 form at <https://www.irs.gov/pub/irs-pdf/fw9.pdf> or call our office and we will send one to you.

Since January also is time to prepare year-end payroll forms, please review your payroll journal to make sure you have accurate (and current) names, addresses and Social Security numbers for all of your workers.

Just a reminder that there are penalties for not filing on time as well as inaccurate information.

We have seen several employers hit with penalties this year. W-2's and 1099's forms need to be out to workers by **Jan. 31**.

Two kinds of 1099 forms will be issued for 2022. Non-Employee Compensation (independent contractors) will be reported on a Form 1099-NEC. All other income types, such as rent, other income, sales for resale over \$5,000 and payments to attorneys, will be reported on Form 1099-MISC.

Audits, audits

Now that the government agencies are over their pandemic shutdowns, we are seeing a surge in audit letters:

-- Unfiled sales tax returns as old as 2016 are being asked for.

-- IRS has started auditing Employee Retention Credits (ERC). The recent media coverage of ERC fraud has been prompted in part by IRS publicity, putting business owners on notice that IRS will pursue invalid ERC claims.

-- The 30-month deferral period for Economic Injury Disaster Loans (EIDL) is almost over. Visit the SBA website at <https://www.sba.gov/> to set up a payment account.

