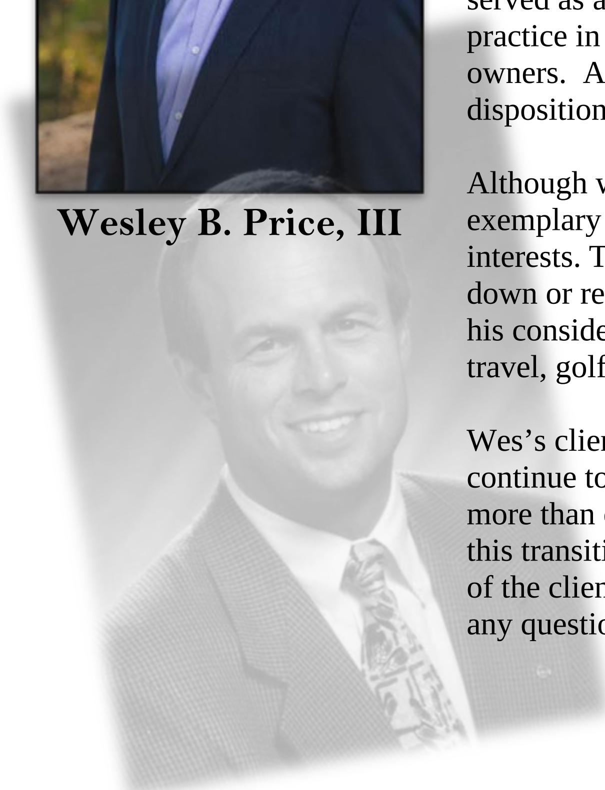
PRICE FRONK & Co

SUMMER 2022

PARTNER RETIREMENT ANNOUNCEMENT

Wesley B. Price, III

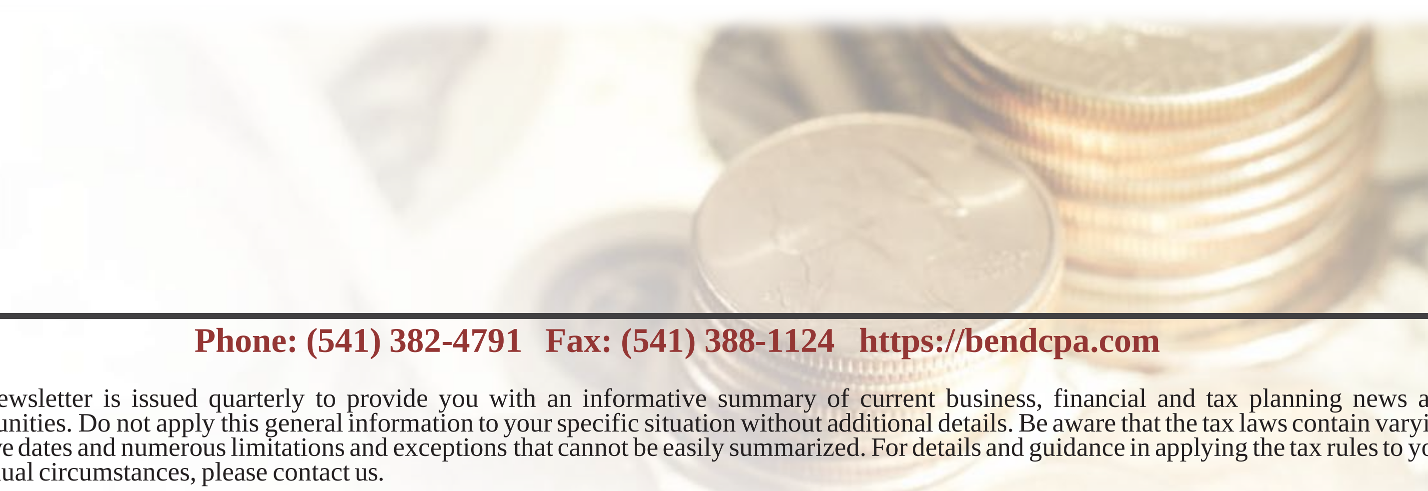


It is with mixed emotions that our good friend and highly valued partner, Wesley B. Price, III has announced his intent to retire as managing partner from Price Fronk & Co. effective June 30, 2022. During the transition process, Wes will stay on as a Partner Emeritus, working closely with the firm to ensure all client relationships are smoothly transitioned. Partner emeritus is an honorary title, which holds counsel, historical perspective and other leadership services and research privileges within the firm.

Wes is an Oregon native who dedicated most of his career to Price Fronk & Co. He joined the firm in 1979 and became a partner in 1989. For 33 years, Wes served as a leader in the firm's corporate business group and concentrated his practice in business and tax planning issues for closely held businesses and their owners. A major focus of his practice included business acquisitions and dispositions and all related tax issues for the business owners.

Although we will miss having Wes in the office full time, after 43 years of exemplary service, he has well-earned the opportunity to pursue his other interests. Those of us who know Wes best are confident that he will not slow down or retire in any traditional sense, but that he will merely shift the focus of his considerable talents and boundless energy in pursuit of his other passions: travel, golf and spending time with family and friends.

Wes's clients have been introduced to other accountants at the firm who will continue to meet their needs. At our firm, we have a collaborative model so that more than one accountant is familiar with a client's tax matters which help make this transition as smooth as possible. We look forward to continuing to serve all of the clients of our firm, and we hope that you will reach out to us if you have any questions or concerns about the transition. ■



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NONWORKING SPOUSES MAY STILL CONTRIBUTE TO AN IRA

Married couples may not be able to save as much as they need for retirement when one spouse doesn't work

outside the home — perhaps so that spouse can take care of children or elderly parents. In general, an IRA contribution is allowed only if a taxpayer earns compensation. However, there's an exception involving a "spousal" IRA. It allows contributions to be made for nonworking spouses. For 2022, the amount that an eligible married couple can contribute to an IRA for a nonworking spouse is $6,000, which is the same limit that applies for the working spouse.

IRA ADVANTAGES

As you may know, traditional IRAs offer two types of advantages for taxpayers who make contributions to them:

1. Contributions of up to $6,000 a year to an IRA may be tax deductible, and
2. The earnings on funds within the IRA aren't taxed until withdrawn. (Alternatively, you may make contributions to a Roth IRA. There's no deduction for Roth IRA contributions, but if certain requirements are met, distributions are tax-free).

As long as the couple together has at least $12,000 of earned income, $6,000 can be contributed to an IRA for each, for a total of $12,000. (The contributions for both spouses can be made to either a regular IRA or a Roth IRA, or split between them, if the combined contributions don't exceed the $12,000 limit).

BOOST CONTRIBUTIONS IF 50 OR OLDER

In addition, individuals who are age 50 or older can make "catch-up" contributions to an IRA or Roth IRA in the amount of $1,000. Therefore, for 2022, for a taxpayer and his or her spouse, both of whom will have reached age 50 by the end of the year, the combined limit of the deductible contributions to an IRA for each spouse is $7,000, for a combined deductible limit of $14,000.

There's one catch, however. Suppose in 2022, the working spouse is an active participant in one of several types of retirement plans. In that case, a deductible contribution of up to $6,000 (or $7,000 for a spouse who will be 50 by the end of the year) can be made to the IRA of the nonparticipant spouse, only if the couple's AGI doesn't exceed $129,000.

Contact us if you'd like more information about IRAs or you'd like to discuss retirement planning. ■

MEDICARE PREMIUMS MAY LOWER YOUR TAXES

Do you pay premiums for Medicare health insurance? If so, you may be able to combine them with other qualifying health care expenses and claim them as an itemized deduction for medical expenses on your individual tax return. This includes amounts for "Medigap" insurance and Medicare Advantage plans, which cover some costs that Medicare Parts A and B don't cover. For 2022, you can deduct medical expenses only if you itemize deductions and only to the extent that total qualifying expenses exceeded 7.5% of your adjusted gross income. The Tax Cuts and Jobs Act nearly doubled the standard deduction amounts for 2018 through 2025. For tax year 2022, the standard deduction amounts are: $12,950 for single filers; $25,900 for married joint-filing couples; and $19,400 for heads of households. Higher standard deductions mean that fewer individuals are itemizing deductions. However, if you have significant medical expenses, including Medicare premiums, you may be able to itemize and enjoy some tax savings.

Important note: Self-employed people and shareholder employees of S corporations can generally claim an above-the-line deduction for their health insurance premiums, including Medicare premiums. That means they don't need to itemize to get the tax savings from their premiums.

In addition to Medicare premiums, you can deduct a variety of other medical expenses, including those for ambulance services, dental treatment, dentures, eyeglasses, hospital, lab tests, qualified long-term care services and prescription medicines. You may also qualify to deduct transportation costs to get to medical appointments. If you drive, track your mileage and you can deduct 18 cents per mile for 2022.

Contact us with your questions about Medicare coverage options or claiming medical expense deductions on your personal tax return. We can help you identify an optimal overall tax-planning strategy based on your personal circumstances. ■

SELLING YOUR BUSINESS? AN INSTALLMENT SALE MAY YIELD TAX BENEFITS

You've spent years building your company and now you're ready to move on, possibly to a new business, retirement or something else. Whatever your plans, you want to get the best return from your business that you can after all the time and money you've put into it. Not only do you need to get a good price, but also to minimize the tax hit on the proceeds. One option is an installment sale, which allows you to defer and possibly reduce taxes.

GIVING PROPERTY AWAY VS. SELLING IT

If you have a taxable estate, it may be more advantageous to give property to your children than to sell it to them. By gifting the asset, you'll deplete your estate and reduce your potential estate tax liability. In a sale, the proceeds generally will be included in your taxable estate.

But an installment sale may be desirable if you've already exhausted your $12.06 million (for 2022) lifetime gift tax exemption or if your cash flow needs preclude you from simply gifting the assets. Selling property at fair market value to your children or other loved ones rather than gifting it lets you avoid gift taxes on the transfer and freeze the property's value for estate tax purposes as of the sale date. Future appreciation benefits the buyer and won't be included in your taxable estate.

Of course, if the transaction is structured as a sale rather than a gift, your buyer must have the financial resources to buy the property. Using an installment note allows the buyer instead to make the payments over time. Ideally, the purchased property will generate enough income to fund these payments.

PROS VS. CONS

One advantage of an installment sale is the flexibility you have to design a payment schedule that corresponds with the property's cash flow, your financial needs and those of your buyer. You can arrange for the payments to increase or decrease over time or start with interest-only payments and an end-of-term balloon payment of the principal.

One disadvantage of an installment sale — as opposed to gifting property — is that you'll owe tax on any capital gains recognized from the sale. Fortunately, you can spread this tax liability over the life of the installment note. As of this writing, the long-term capital gains rates are 0%, 15% or 20%, depending on the amount of your net long-term capital gains plus your ordinary income.

Also, you'll have to charge interest on the note according to the IRS minimum interest rate guidelines and pay ordinary income tax on those interest payments. Then again, any capital gains and ordinary income tax you pay further reduces the size of your taxable estate.

A WORTHWHILE APPROACH

An installment sale is an approach worth exploring for anyone with high-value assets. It can play a key role in your estate plan and it may help keep a family-owned business in the family.

Of course, this simple technique isn't right for everyone. To determine whether an installment sale is the best path for you and your business — and to find out about other tax-smart options — please contact us. ■

TAX CALENDAR

September 15th

- If an extension was obtained, partnerships must file their 2021 Form 1065 by this date.
- If an extension was obtained, calendar-year S-corporations must file their 2021 Form 1120S by this date.
- Third quarter 2022 estimated tax payments are due for individuals, calendar-year corporations, estates and trusts.

September 30th

- If an extension was obtained, calendar-year trusts and estates must file their 2021 Form 1041 by this date.

October 17th

- If an extension was obtained, calendar-year corporations must file their 2021 Form 1020 by this date.
- If an extension was obtained, individuals must file their 2021 Form 1040 by this date.

CAN YOU DEDUCT THE COSTS OF A SELF-MANAGED PORTFOLIO?

Do you have significant investment-related expenses, including payment for financial service subscriptions, home office maintenance and clerical support? Under current tax law — specifically the 2017 Tax Cuts and Jobs Act — these expenses aren't deductible through 2025 if they're considered investment expenses to produce income. But they are deductible if they're considered trade or business expenses.

For years before 2018, production-of-income expenses were deductible, but they were included in miscellaneous itemized deductions, which were subject to a 2%-of-adjusted-gross-income floor. (Unless Congress acts to extend them, these rules are scheduled to return after 2025.) If you do a significant amount of trading, you should know which category your investment expenses fall into, because qualifying for trade or business expense treatment is more advantageous now.

To be able to deduct your investment-related expenses as business expenses, you must be engaged in a trade or business. The U.S. Supreme Court held many years ago that an individual taxpayer isn't engaged in a trade or business merely because the individual manages his or her own securities investments — regardless of the amount or the extent of the work required.

A TRADER VS. AN INVESTOR

However, if you can show that your investment activities rise to the level of carrying on a trade or business, you may be considered a trader, who is engaged in a trade or business, rather than an investor, who isn't. As a trader, you're entitled to deduct your investment related expenses as business expenses. A trader is also entitled to deduct home office expenses if the home office is used exclusively on a regular basis as the trader's principal place of business. An investor, on the other hand, isn't entitled to home office deductions since the investment activities aren't a trade or business.

Since the Supreme Court decision, there has been extensive litigation on the issue of whether a taxpayer is a trader or investor. The U.S. Tax Court has developed a two-part test, both parts of which must be satisfied for a taxpayer to be considered a trader.

PROFIT IN THE SHORT TERM

A taxpayer's investment activities may be regular, extensive and continuous. But that itself isn't sufficient for determining that the taxpayer is a trader. To be considered a trader — and therefore entitled to deduct investment-related business expenses — you must show that you buy and sell securities with reasonable frequency with the goal of making a profit on a short-term basis.

In one U.S. Tax Court case, a taxpayer made more than 1,000 trades a year with trading activities averaging about $16 million annually. Even so, the individual was deemed to be an investor rather than a trader, because the holding periods for stocks sold averaged about one year.

1. The taxpayer's trading is substantial (in other words, sporadic trading isn't considered a trade or business), and

2. The taxpayer seeks to profit from short-term market swings, rather than from long-term holding of investments. Again, to pass this test, a taxpayer's investment activities are considered a trade or business only if *both* parts one and two are satisfied. Contact us if you have questions or would like to figure out whether you're an investor or a trader for tax purposes. ■