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September Client Update Newsletter

This month's newsletter recaps the details of the revamped electric vehicle tax credit and other energy credits in newly passed legislation.

Also included this month are some tips to review your recurring monthly bills that seem to automatically creep up. And there is a revealing article on a financial landmine that exists for EVERY car owner that has their vehicle deemed a total loss by an insurance company after an accident.

Plus a great set of ideas to protect your Social Security Number from prying eyes!

Please feel free to forward the information to someone who may be interested in a topic and call with any questions you may have.

Upcoming dates

- **September 15**
  - Filing deadline for extended 2021 calendar-year S corporation and partnership tax returns
  - 3rd quarter installment of 2022 estimated income tax is due for individuals, calendar-year corporations and calendar-year trusts & estates
- **October 17**
  - Filing deadline for extended 2021 individual and C corporation tax returns

In this issue:

New Electric Vehicle and Other Energy Credits

Tax incentives for purchasing clean (electric) vehicles and installing high efficiency home improvements are some of the featured provisions in the recently-passed Inflation Reduction Act (IRA). Here's a closer look at some of the bill's tax provisions regarding the new incentives.

Clean Vehicle Credit (formerly Plug-In Electric Vehicle Credit)

Here is a summary of the details surrounding the new Clean Vehicle Credit:

The tax credit of up to $7,500 for electric vehicles (EVs) is extended for 10 years until December 2032.

Starting in 2023, used cars now qualify for up to a $4,000 tax credit.

Starting in 2024, you can take the credit as a discount at the time you purchase the vehicle instead of waiting to file your tax return.

In the past, if a manufacturer had produced at least 200,000 EVs, you could no longer qualify for the tax credit if purchasing a vehicle from that manufacturer. The new bill removes this 200,000 vehicle cap starting in 2023.

On the other hand, there are significantly more hurdles you'll have to overcome to qualify for the new Clean Vehicle Credit:

MSRP hurdle

New clean cars must have a manufacturer's suggested retail price (MSRP) of no more than $55,000.

New clean vans, pickup trucks, and SUVs must have an MSRP of no more than $80,000.

Used clean vehicles must cost no more than $25,000.

Income hurdle

For a new clean vehicle, your adjusted gross income must be less than $150,000 if single, $225,000 if head of household, or $300,000 if married.

For a used clean vehicle, your adjusted gross income must be less than $75,000 if single, $112,500 if head of household, or $150,000 if married.

Domestic production hurdle

The final assembly of a new clean vehicle must occur in North America as of August 16, 2022.

Starting in 2023, at least 40% of critical battery minerals and 50% of battery components must be recycled, mined, or manufactured in the U.S.

Many automakers are unsure whether they will be able to meet this criteria as the new law is currently written.

What you can do

Wait until 2023 to buy Tesla and GM vehicles. Because Tesla and General Motors have both crossed the 200,000 electronic vehicle threshold, any Tesla or GM vehicle purchased in 2022 won't qualify for the tax credit. Starting in 2023, certain Tesla and GM vehicles will once again qualify for the credit once the 200,000 limit is removed.

Government to release further guidance. There are still many unanswered questions about how the new Clean Vehicle Credit will be implemented. The federal government plans to release further guidance by the end of the year that hopefully answers some of these questions.

Other Tax-Related Provisions

Qualifying high efficiency home improvements now qualify for an annual $1,200 credit, up from a $500 maximum lifetime credit.

Energy efficient heat pumps, heat pump water heaters, central air conditioners, wood stoves, and natural gas or oil furnaces or boilers qualify for a $2,000 credit.

What you can do

Look for the details. Prior to purchasing new high efficient home improvements, double check how the new credit will apply to your purchase.

Check with manufacturers. Most manufacturers are motivated to understand the new program and could be a good resource to see how they apply to your situation.

There will be more details on how to obtain these credits in the future. So stay alert and check before making any purchase decisions if you are expecting to take any of these new energy saving credits.

Under the Hood

The underbelly of replacing a totaled car

Underneath the still water of car insurance lies an unseen monster that comes up and attacks every car owner who has their car replaced after an insurance company declares the vehicle a total loss. Consider this true story:

Becoming a victim…twice

Your daughter is rear ended by a distracted driver while waiting to turn left. The insurance company of the person who hit her considers the car a total loss. To her surprise, the amount the insurance company offers for her vehicle is approximately 20% lower than the cost to replace her vehicle! Is this a mistake? As it turns out…no… it is a systemic occurrence of paying less than the Fair Market Value* by virtually all insurance companies.

So now your daughter is a victim of two tragedies. One, as an innocent victim of a car accident that totals her car and two, as a victim of the insurance company.

The fair market value fallacy

Unbeknownst to most of America, the valuation of vehicles deemed a total loss is determined by one company, CCC Intelligent Solutions. Per CCC, their services are used by 18 of the top 20 insurance companies and their valuation model does NOT use a Fair Market Value standard to replace your vehicle. Instead, their model determines a value that, when compared to valuation models found at Kelly Blue Book, Edmunds, and NADA is systemically low.

Variables become an opportunity to cost you money

Think about it...why does CCC Intelligent Solutions have a stranglehold on the car valuation business? Because it saves the insurance companies money. Here are three things they do to ensure insurance has the edge in payouts:

> **The three-comp approach.** CCC's model compares your vehicle to three specific vehicles versus applying the model against a large database. How the three vehicles are selected from their database is a secret, and if you find vehicles you think are more comparable in mileage or location, good luck trying to replace CCC's choices. In the example above, a local dealer had a similar model valued at $2,000 more, but the insurance company and/or CCC refused to consider it as a comparable vehicle.
>
> **The mileage adjustment.** In the story above, the low miles on your daughter's destroyed vehicle were given a credit of $2,124, while online services valued the low miles at over

$3,000. This creates an instant savings of over $800 for the insurance company!

The condition assessment reduction. The model also uses a valuation reduction number against all three of their chosen comparable vehicles. The description on their report is vague as to why the adjustment is made and whether the amount is reasonable. This lack of transparency is the subject of many lawsuits across the United States.

The reason all this works is because valuation is never one number but rather a range of values and the CCC model figures out how to stay low, but not so low that it cannot be defended in court.

What you can do

Awareness is key. Every consumer needs to know this is how the valuation model works. Plan on paying an additional 20% to 30% of your car's value to replace it with the same model in similar condition.

Avoid large car loans. Understand that if your car is totaled you will need to come up with money to replace it, so avoid taking out a large car loan. An unavoidable accident, even with no medical bills, could place your financial life in chaos.

Challenge the replacement determination. Insurance companies will probably hit the replace-not-repair number more quickly when they know they save 20% to 30% by declaring your car a total loss. So before agreeing to this determination, demand a repair estimate from a trusted auto body shop. Then look at the value of your car, reduce it by 20% to 30% and see if you agree with the insurance company's determination.

Find insurance companies that do not use the CCC service. Good luck on this one, as a quick search shows that most of the largest insurance companies use the CCC service.

Fight back. Continually work to increase the insurance company's offer with facts. Consider making a formal complaint with representatives in your state.

While hard to do, always drive towards fair market value and not some unbalanced valuation model driven by a single company as the only factor when valuing your totaled vehicle.

**Fair Market Value standard as defined by the Internal Revenue Service in determining the value of all tangible assets, including automobiles.*

Tips to Protect Your Social Security Number

Very few things in life can create a higher degree of stress than having your Social Security number (SSN) stolen. This is because, unlike other forms of identification, your SSN is virtually permanent.

Here are some things that you can do to minimize the risk of having your number fall into the hands of the wrong people.

Never carry your card. Place your SSN card in a safe place. That place is never your wallet or purse. Only take the card with you when you need it.

Know who needs it. As identity theft continues to evolve, there are fewer who really need to know your SSN. Here is that list:

- **The government.** The federal and state governments use this number to keep track of your earnings for retirement benefits and to ensure you pay proper taxes.
- **Your employer.** The SSN is used to keep track of your wages and withholdings. It also is used to prove citizenship and to contribute to your Social Security and Medicare accounts.
- **Certain financial institutions.** Your SSN is used by various financial institutions to prove citizenship, open bank accounts, provide loans, establish other forms of credit, track digital payments, report your credit history or confirm your identity. In no case should you be required to confirm more than the last four digits of your number.

Challenge all other requests. Many other vendors may ask for your SSN, but having it may not be essential. The most common requests come from health care providers and insurance companies, but requests can also come from subscription services when setting up a new account. When asked on a form for your number, leave it blank. If your supplier really needs it, they will ask you for it. This allows you to challenge their request.

Destroy and distort documents. Shred any documents that have your number listed. When providing copies of your tax return to anyone, distort or cover your SSN. Remember, your number is printed on the top of each page of Form 1040. If the government requests your SSN on a check payment, only place the last four digits on the check, and replace the first five digits with Xs.

Keep your scammer alert on high. Never give out any part of the number over the phone or via email. Do not even confirm your SSN to someone who happens to read it back to you on the phone. If this happens to you, file a police report and report the theft to the IRS and Federal Trade Commission.

Proactively check for use. Periodically check your credit reports for potential use of your SSN. If suspicious activity is found, have the credit agencies place a fraud alert on your

account. Remember, everyone is entitled to a free credit report once a year. You can obtain yours on the Annual Credit Report website.

Replacing a stolen SSN is not only hard to do, it can create many problems. Your best defense is to stop the theft before it happens.

Taming Monthly Bill Creep

Paying bills is inevitable, but paying too much is not. Here are some tips to help you get a handle on your recurring monthly expenses.

Investigate your recurring services. Start by taking stock of every service you are currently using. Review your bank and credit card statements and highlight all the charges that look like a subscription. Some examples to look for are streaming services (video, music and games), magazines, news subscriptions, digital storage services, gym memberships and financial services. Determine if you have redundant subscriptions, such as two music-streaming services. Finally, ask yourself if each service is still providing value to you. If it's not, cancel it.

Review bills for unnecessary fees. Once you trim your list down to the services you want to keep, locate the most recent bill for each. Read through all the charges and make notes of those that are questionable. You might be paying for services you aren't using, such as a video streaming service on your cell phone bill. Or maybe you are paying replacement insurance coverage for something you don't need. For every charge that doesn't make sense, call and ask the provider to cancel it.

Bundle expenses when you can. Many suppliers provide multiple services and will offer discounts if you sign up for a few of them. Bundling your cable TV, internet and home phone is a common example of this. Other places to look for bundling opportunities are cell phone providers and insurance companies.

Negotiate for lower rates. Call each provider and ask for a lower rate or discount. Most companies want to keep your business, so often times they will work with you. Service providers routinely change the way they package their products, so saving money might be as simple as changing to a different level of service. It's rare for companies to reach out and offer savings, so you need to make the call!

It's easy for your bills to spiral out of control if you don't keep close tabs on them. Go through a review exercise every few months to ensure you aren't paying more than necessary.

Student Loan Forgiveness Q&A

While there may be legal and Congressional challenges around the recent presidential executive order, here are some questions and answers about what is known so far about the announced student loan forgiveness program.

Can the President forgive this debt?

Who knows how this will play out, but maybe not. Only Congress has spending authority. And the forgiveness of debt is considered income in the eyes of the IRS. So to avoid any long-standing legal battle, Congress may need to authorize this estimated $1 trillion dollar program. Whether it does is up for debate.

If approved, who qualifies for the forgiveness program?

Here's a checklist of qualifications in the executive order:

Loan Type. You have student loans that are held by the U.S. Department of Education (DoE), including Pell Grants, Federal Family Education Loans, and Direct Loans such as Parent PLUS and Grad PLUS loans. Certain loans from the Federal Perkins Loan Program may be excluded. All private student loans are also excluded.

Loan Issue Date. Student loans taken out after June 30, 2022 are not eligible for forgiveness.

Income Threshold. Your income does not exceed $125,000 if single and $250,000 if married based on your 2020 or 2021 federal tax return.*

What are the limits?

$20,000. Recipients of a Pell Grant can have up to $20,000 in student loan forgiveness.

$10,000. For non-Pell Grant loans, the maximum student loan forgiveness is $10,000.

Is the forgiven student loan taxable?

Federal Level. Per the executive order, forgiven student loans will not be considered taxable income on federal tax returns. The approach the executive order takes is by using the American Rescue Plan that prevents taxation on student loans forgiven through 2025.

State Level. While many states follow the federal law that excludes student loan forgiveness from being considered taxable income, several states currently do not conform to federal law. Details are being worked out in these states to try and keep student loan forgiveness from

being considered taxable income.

What you need to do

Stay alert to any twists and turns regarding challenges to this executive order. In the meantime:

Watch for the forgiveness application. An application for student loan forgiveness on the Department of Education's website, ed.gov, will be the next step. There may be exclusions to this application requirement, with many borrowers potentially receiving automatic forgiveness if the Department of Education already has your income data.

Double-check your loan balance. Take a screen shot of your loan balance the day you submit your forgiveness application and compare it to your balance after the forgiveness is eventually applied to make sure the forgiveness is properly applied to your account.

There are still lots of unanswered questions about this student loan forgiveness program, including whether it is even legal. So stay tuned for future updates.

***NOTE:** While the Department of Education typically uses your adjusted gross income (AGI) number when determining eligibility for other loan programs, the White House did not confirm whether AGI will be used to determine the $125,000 and $250,000 income thresholds.*

Handling Negative Online Reviews of Your Business

Here are some ideas on handling those pesky online business reviews.

The best defense is a great offense. You don't have to address negative reviews if you never have them in the first place. Proactively identify possible negative experiences and encourage customers to respond directly to you to resolve their issues.

Know your dissatisfied reviewer. Before responding, conduct research on the customer. Are they habitual complainers? Online forums have created many of these types of customers. On the other hand, people easily get frustrated with poor service and are simply at their wit's end. It's important to know the difference.

Fix the problem. When you get a negative review, identify the customer and contact them directly. Then work with them to solve their problem. If a solution is not possible, be willing to cancel their service or refund their money. While you may not like the solution if the customer is unreasonable, at least they are not out any money. Then consider the experience a gift. You either now have a process that can be improved or you have identified a complainer you do not want as a customer.

Either way, your business is better off! Once this is done, ask the customer to rave about how you solved their problem!

Write your response. Remember, your written response to the complaint is meant for future readers of the complaint. Your response should contain the following elements:

Acknowledge the customer's feelings

Restate the problem

Explain how you solved the problem

Encourage the complainer to contact you directly in the future so you can handle their issue more effectively than through a public forum

Avoid acting defensive, over-apologetic, or getting into a back-and-forth discussion

Today's review systems give entirely too much power to a few complainers. Your goal is to use these systems to your advantage to find new buyers by showing great customer service!

As always, should you have any questions or concerns regarding your tax situation please feel free to call.

PAST ISSUES

August 2022	July 2022	June 2022	May 2022

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