

October 18<sup>th</sup>, 2022



## Tax Planning During Volatile Times



RELATIONSHIPS | built on results

# Disclaimer

A R M

- This document and information is provided by Ary Roepcke Mulchaey, P.C. and the presenter for general guidance only, and does not constitute the provision of legal advice, accounting services, investment advice, written tax advice, or professional advice of any kind.
- The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisors.
- Before making any decision or taking any action, you should consult with a professional adviser who has been provided with all pertinent facts relevant to your particular situation.
- The information is provided “as is” with no assurance or guarantee of completeness, accuracy, or timeliness of the information, and without warranty of any kind, express or implied, including but not limited to warranties of performance, merchantability, and fitness for a particular purpose.

# Ohio Business Income

A

R

M

- First \$250,000 of business income not taxed
- Business income over \$250,000 is taxed a flat rate of 3%
- Highest Ohio tax bracket is 3.99%

# Ohio Business Income

A

R

M

- What is considered business income?
  - Schedule C income
  - Flow-through income from partnership and S-Corporation
  - Wages paid to at least 20% or more owners
  - Gain from sale of business assets
  - **What about gain from sale of stock or membership interest?**



## 14. Does the sale of an ownership interest in a business qualify for the Business Income Deduction? ^

What if the sale is a "deemed asset sale" per IRC 338?

Capital gains are generally considered nonbusiness income. Nonbusiness capital gains are not eligible for the Business Income Deduction.

Capital gains include gains from the sale of intangible personal property, such as an individual's ownership interest in a business. Please note, capital gains resulting from the sale of an individual's ownership interest in a business that are "deemed asset sales" (e.g. I.R.C. 338(h)(10)) are still considered to be the sale of intangible personal property for Ohio income tax purposes, and thus are generally not eligible for the Business Income Deduction.

See R.C. 5747.01(C).

# Ohio Business Income

A

R

M

- On June 24<sup>th</sup>, Governor DeWine signed House Bill 515 into law. The law became effective September 21, 2022
  - Clarifies that the sale of an equity or ownership interest in a business qualifies for the Ohio Business Income Deduction
  - The bill's changes apply to any transactions, refund applications, audits, petitions for reassessments and appeals pending on or after the bill's 90-day effective date
  - To qualify as business income, certain requirements must be met including either
    - a) the sale must be treated for federal tax purposes as the sale of assets or
    - b) the seller materially participated in the activities of the business during the taxable year in which the sale occurs or during any of the five preceding taxable years

- **Sale of Assets**

- The sale of 100% of disregarded single-member LLC treated for federal income tax purposes as an asset sale.
- Transactions qualifying under I.R.C. Sec. 336(e).
- An entity making an I.R.C. Sec. 338(h)(10) election with the sale of S-Corp stock.
- The sale of a 100% of a Q-Sub treated as the sale of assets for federal income tax purposes.
- Any transactions treated as a deemed sale of assets for federal tax purposes.

- **Materially Participation test**
  - The tax law references the description in the U.S. Code of Federal Regulations 26 C.F.R. 1.469-5T to define material participation in the activities of the business

- **Refund Claim**

- Taxpayers who engaged in the sale of a business in the past several years where the transaction was not eligible for Ohio BID...file refund claim!
- Deadline to file an amended return and refund claim in Ohio is *four years* from the date the return was filed or required to be filed, whichever is later.
- Make sure future sales are properly treated as business income.

# Ohio SALT Workaround

A

R

M

- Federal state and local tax (SALT) cap is \$10,000
- Many states now have a workaround for individual business owners to workaround the cap deduction of \$10,000.



Department of  
Taxation

## **Ohio's PTE SALT Cap Workaround for "Electing Pass-Through Entities" beginning in Tax Year 2022**

Senate Bill 246 was recently passed by the General Assembly and signed by Governor DeWine. This bill added section R.C. 5747.38, which allows a qualifying pass-through entity (PTE) to "elect" to be subject to this new entity-level tax.

The Department has begun development of a new PTE tax form (IT 4738) for tax year 2022, instructions, FAQ's, and related information. We will share these items as they become available on our website.

# Ohio SALT Workaround

A

R

M

- **Example**

- Assume \$1,000,000 of business income in 2023.
- \$30,000 tax would be paid by entity, which would reduce Federal adjusted gross income since the tax would be a business deduction that reduces K-1 income.
- The \$30,000 of income would be added back when calculating Ohio business income.

# Ohio SALT Workaround

A

R

M

## Summary Report

	Baseline	SALT Election
<b>Income:</b>		
Interest & Dividends	5,075	5,075
Self-employment Income	1,000,000	970,000
<b>Total Income</b>	<b>1,005,075</b>	<b>975,075</b>
<b>Adjustments:</b>		
Self-employment Tax & Other Adjs	22,505	22,103
<b>Total Adjustments</b>	<b>22,505</b>	<b>22,103</b>
<b>Adjusted Gross Income</b>	<b>982,570</b>	<b>952,972</b>
<b>Personal Exemptions</b>	<b>0</b>	<b>0</b>
<b>Itemized Deductions:</b>		
Charitable Contributions	5,000	5,000
Taxes	10,000	10,000
Interest Expense	25,000	25,000
<b>Total Itemized</b>	<b>40,000</b>	<b>40,000</b>
Standard Deduction	25,900	25,900
<b>Total Deductions from AGI</b>	<b>40,000</b>	<b>40,000</b>
<b>Taxable Income</b>	<b>942,570</b>	<b>912,972</b>
<b>Regular Tax:</b>		
Schedule or Table Tax	283,300	272,349
Alternative Capital Gains Tax	282,917	271,966
<b>Appropriate Regular Tax</b>	<b>282,917</b>	<b>271,966</b>
Self-employment Tax	45,010	44,206
High Income HI, Medicare & Other Tax	6,253	6,003
<b>Total Federal Taxes</b>	<b>334,180</b>	<b>322,175</b>

# Ohio SALT Workaround

A

R

M

Things you should know if the entity elects to file the IT 4738:

- The election is made by the entity and is binding on all owners of the entity.
- All owners' qualifying taxable income is required to be included if the entity makes this election.
- The election is irrevocable for the tax year.
- A disregarded entity may NOT make this election.
- Election is made known to the Department by filing the IT 4738.
- Tax rate is 5% for the taxable year beginning January 1, 2022, and for taxable years beginning January 1, 2023, the rate is equal to the tax rate imposed on taxable business income under RC 5747.02 (A)(4)(a) (currently 3%).
- No refundable or non-refundable credits can be claimed on the IT 4738.
- Due date is April 15<sup>th</sup> of the calendar year after the year in which entity's fiscal year ends. For tax year 2022, the due date will be April 18, 2023.
- Estimated payments are due on the same dates as the IT 1140 estimated payments (15<sup>th</sup> day of the month after the end of each quarter).
- Filing the IT 4738 meets Ohio filing requirements for the entity's non-resident & trust investors unless they have other Ohio sourced income.
- Owners who file an Ohio individual income tax return, IT 1040, must add back the tax amounts paid on the IT 4738 to the extent not included in computing federal or Ohio adjusted gross income using the Ohio Schedule of Adjustments, line 2.
- A refundable credit for the proportionate share of the tax paid on the IT 4738 is available for owners who file an IT 1040 using the Ohio Schedule of Credits, Pass-through entity credit line.

# Ohio Audit Areas

A

R

M

- Use tax is a complementary tax to the sales tax.
- In general, use tax is owed by a purchaser on a transaction when the vendor does not collect sales tax.
- Ohio will conduct audit to verify that appropriate sales/use tax is being paid.
- Many companies are now withholding sales tax, but not all!

# Ohio Audit Areas

A R M



Department of  
Taxation

Resources for  
**INDIVIDUALS**

Resources for  
**BUSINESSES**

Resources for  
**GOVERNMENT**

Resources for  
**PROFESSIONALS**

Resources for  
**RESEARCHERS**

SPEAKER REQUEST

### 3. What services are subject to the sales tax? ^

- Rental of hotel rooms or similar sleeping accommodations for less than 30 days by establishments with five or more sleeping rooms.
- Provision of landscaping or lawn care service, if annual sales of this service equal or exceed \$5,000.
- Provision of private investigation or security service.
- Provision of information service through use of a nine-hundred telephone call (1-900).
- Production of tangible personal property from material supplied by the customer. For example, a tailor using fabric furnished by the customer.
- Building maintenance and janitorial service, if annual sales of this service equal or exceed \$5,000.
- Exterminating service.
- Physical fitness facility service.
- Recreation and sports club service.
- Repair of tangible personal property (except repair of property which is exempt from sales tax).
- Installation of tangible personal property (except installation of property which is exempt from sales tax).
- Washing (except coin-operated), cleaning, waxing, polishing, or painting of motor vehicles.
- Towing service for motor vehicles, this includes the conveyance of a wrecked, disabled, or illegally parked motor vehicle.
- Laundry and dry cleaning service, excluding sales made through coin operated machines.
- Automatic data processing, computer services, or electronic information services provided for use in a business. Electronic information services include, but are not limited to, Internet access charges and e-mail service charges for use in a business.

RELATIONSHIPS | built on results

An Independent Member of BKR International

[www.armcpa.com](http://www.armcpa.com)

# Stock Options

- **ISOs**
  - Also referred to as *qualified options* or *statutory options*, ISOs are entitled to preferential federal income tax treatment.
  - However, ISOs also are subject to some special restrictions and unfavorable handling under the Alternative Minimum Tax (AMT) system.
- **NQSOs (Non-qualified stock options)**
  - Employer-issued stock options that are not ISOs are NQSOs by default.

## Exercise

- When an NQSO is exercised, the *bargain element* (difference between FMV and exercise price at the time of exercise) is treated as income from compensation (included on Form W-2).
- Arithmetic dictates that the tax basis in NQSO shares equals the market price on the exercise date.

## Exercise and sell immediately

- No gain or loss since basis will be equal to FMV.

## Exercise and hold with appreciation

- When the shares are ultimately sold, any subsequent appreciation would be capital gain. Long-term gain if held for over a year.

## Exercise and hold with decline

- If shares are eventually sold for less than the FMV on the exercise date, the result is a capital loss that's subject to the dreaded capital loss deduction limitation rule.

# Wage Income

- Difference between FMV and Exercise Price included in income

FMV x Shares Exercised:		\$55,410.00
Less Total Option Exercise Price:		(\$15,269.40)
Exercise Gain		\$40,140.60
Taxable Compensation:		\$40,140.60
<b>Tax Information</b>		
	<b><u>Tax %</u></b>	<b><u>Taxes Due</u></b>
Federal Tax	25.0000 %	\$10,035.15
**Soc. Sec.	3.4400 %	\$1,381.53
Medicare Tax	1.4500 %	\$582.04
State Tax	10.2300 %	\$4,106.38
Local1 Tax	0.1900 %	\$74.36
<b>Total Tax Amount:</b>		<b>\$16,179.46</b>

- Review exercise confirmations to make sure that tax withholding is appropriate. Run tax projections to set aside any shortfall.

# Brokerage Reporting

A R M

- Brokerage statement shows the FMV of \$55,409 and basis of \$15,269 (Exercise price)

**You must check Box A, B, or C below. Check only one box.** If more than one box applies for your short-term transactions, complete as many forms with the same box checked. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked.

(A) Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see instructions for Form 1099-B)

(B) Short-term transactions reported on Form(s) 1099-B showing basis was **not** reported to the IRS (see instructions for Form 1099-B)

(C) Short-term transactions not reported to you on Form 1099-B

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price)	(e) Cost or other basis. See the <b>Note</b> below and see <i>Column (e)</i> in the instructions
	GOOGLE INC - 100				
	SHS	02/27/15	02/27/15	55,409.	15,269.
	GOOGLE INC - 25				

- Thus, brokerage statement shows \$40K gain
- NOT CORRECT!!!

# Adjustment



- Need to make adjustment to basis

**You must check Box A, B, or C below. Check only one box.** If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

(A) Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)

(B) Short-term transactions reported on Form(s) 1099-B showing basis was **not** reported to the IRS

(C) Short-term transactions not reported to you on Form 1099-B

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price)	(e) Cost or other basis. See the <b>Note</b> below and see <i>Column (e)</i> in the instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). See instructions.		(h) <b>Gain or (loss).</b> Subtract column (e) from column (d) & combine the result with column (g)
						(f) Code(s)	(g) Amount of adjustment	
	GOOGLE INC - 100							
	SHS	02/27/15	02/27/15	55,409.	15,269.	0	<40,141.>	<1.>
	GOOGLE INC - 25							

- This is missed (even by tax preparers) and can result in significant tax overpayments.

# NQSO Example

A

R

M

- **Example** : On 3/1/20, your client, Sarah, was granted an NQSO allowing her to buy 2,000 shares of company stock at \$25 per share.
- On 12/15/20, she exercised the option when the stock was trading at \$34 per share. Ordinary income of \$9 per share ( $34 - 25$ ). Basis in shares would be \$34 ( $25 + 9$ ).
- On 10/18/22, after much stock market turbulence, the shares are trading at \$52 per share, and Sarah sells the shares.

# NQSO Example

- Sarah paid 2020 federal income tax at her ordinary rate on the \$18,000 bargain element when she exercised the NQSO (2,000 shares x \$9 per-share bargain element).
- Assume she paid \$4,320 in tax (24% x \$18,000). Sarah's per-share tax basis is \$34 (FMV on the exercise date), and her holding period began on 12/16/20.

# NQSO Example

A R M

- When Sarah sells her shares on 10/18/22 for \$52 per share, she triggers a \$36,000 long-term capital gain (2,000 shares x \$18 per-share difference between sales price and tax basis).
- Assume the gain gets taxed at the 15% long-term capital gain rate, resulting in a \$5,400 federal income tax hit (15% x \$36,000).

# NQSO Example

- When all is said and done, Sarah nets an after-tax profit of \$44,280 [sales proceeds of \$104,000 (2,000 shares x \$52 per share) - exercise price of \$50,000 (2,000 shares x \$25 per share) - \$4,320 tax upon exercise - \$5,400 tax on the sale of the option shares].
- But if Sarah had exercised earlier in 2020 when the stock was worth less than \$34 per share, she could have cut her tax bill for that year and increased the gain taxed later at the lower 15% rate.
- **Planning consideration:** Exercise early to minimize the current tax hit and maximize the amount treated as long-term capital gain when the option shares are sold.

# Volatile

A R M

Closed: Oct 17, 4:14 PM EDT • Disclaimer

Pre-market 125.47 -0.15 (0.12%)

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Open	123.25	Mkt cap	10.50B	52-wk high	153.36
High	126.22	P/E ratio	27.98	52-wk low	80.81
Low	122.53	Div yield	0.38%		

RELATIONSHIPS | built on results

An Independent Member of BKR International

[www.armcpa.com](http://www.armcpa.com)

- Advantages and disadvantages of waiting:
  - What are your expectations of your company's growth and stock appreciation?
  - Do you believe it has reached its peak?
- Stock option expiration date:
  - Do you have time to wait or is the expiration date looming?
- Current and future financial needs:
  - Are you considering selling early because you need to raise cash now for events such as buying a new home or paying for your child's college tuition?
- Current and potential future tax situation:
  - Do you anticipate being in the same, lower, or higher income bracket when you exercise?
- Risk tolerance:
  - Are you willing to tolerate the potential ups and downs of the stock market?
  - Would you prefer a more conservative investment or do you believe an alternative investment will appreciate at a higher rate?
  - Does your portfolio need risk diversification (if the majority of your investments are in your company's stock)?

# Stock chart

A

R

M

Market Summary > Upstart Holdings Inc

23.15 USD

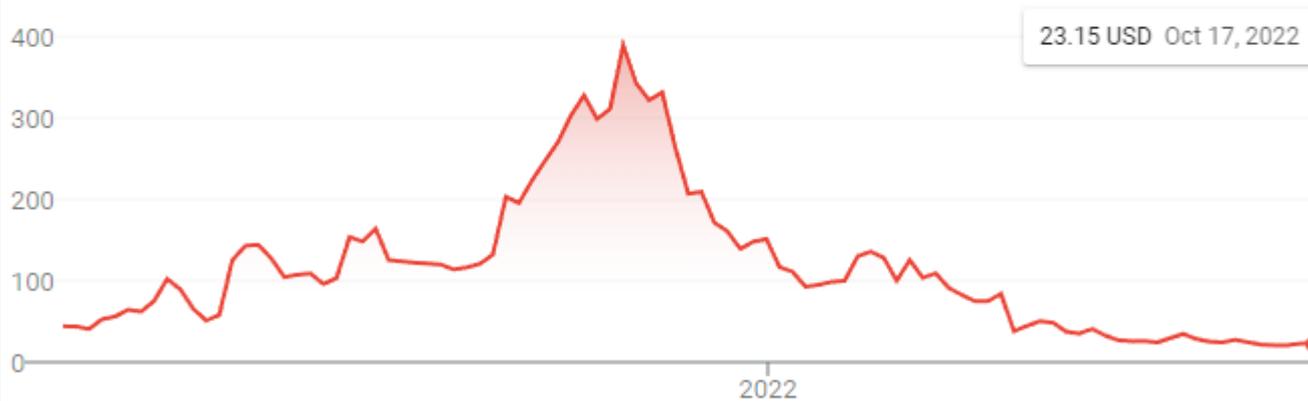
+ Follow

-20.94 (-47.49%) ↓ past 5 years

Closed: Oct 18, 6:02 AM EDT • Disclaimer

Pre-market 23.94 +0.79 (3.41%)

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Open	23.91	Mkt cap	1.88B	52-wk high	401.49
High	24.42	P/E ratio	25.74	52-wk low	20.20
Low	22.95	Div yield	-		

RELATIONSHIPS | built on results

# NQSO – Exercise Choice

A

R

M

## Choices for Exercising Your Stock Options

1

### EXERCISE AND HOLD (CASH EXERCISE)

When you exercise your options with cash and receive the full number of shares from the exercise of your options, so you may benefit from any potential future increases in stock value.

PAY IN

Cash

RECEIVE

Shares

2

### EXERCISE AND SELL\* (SAME DAY SALE OR CASHLESS EXERCISE)

When you exercise your options and immediately sell your shares. You will receive the net proceeds in cash after option exercise costs, taxes, commissions and fees.

You may use the proceeds from the stock sale to cover the purchase price, tax withholding and additional fees.

PAY IN

Cash from stock  
sale proceeds

RECEIVE

Cash

3

### SELL TO COVER\*

When you exercise your stock options and sell enough shares to cover the option exercise costs, taxes, commissions and fees. You then receive the remaining shares.

PAY IN

Cash from stock  
sale proceeds

RECEIVE

Shares

# NQSO Taxation

## NQSO Taxation Table

	<b>At Exercise</b>	<b>Sell After Holding Shares for One Year or Less</b>	<b>Sell After Holding Shares for More Than One Year</b>
<b>Exercise and Hold</b>	Difference between the fair market value (FMV) at exercise and the grant price is taxed as ordinary income and subject to federal, state and local income taxes in addition to payroll taxes.	Difference between the FMV at exercise and the sale price is taxed as a short-term capital gain or loss.	Difference between the FMV at exercise and sale price is taxed as a long-term capital gain or loss.
<b>Exercise and Sell</b> (same day sale or cashless exercise)	Difference between the FMV at exercise and the grant price is taxed as ordinary income and subject to federal, state and local income taxes in addition to payroll taxes		Not applicable.
<b>Sell-to-Cover</b>	Difference between the FMV at exercise and the grant price is taxed as ordinary income and subject to federal, state and local income taxes in addition to payroll taxes.	Difference between the FMV at exercise and the sale price is taxed as a short-term capital gain or loss.	For received net shares, difference between the FMV at exercise and sale price is taxed as a long-term capital gain or loss.

# Incentive Stock Option

A

R

M

- **ISOs at Exercise**

- Neither the receipt nor the exercise of an ISO is subject to regular income tax.
- The bargain purchase element at exercise is considered to be income when figuring your AMT.
- Even if you're usually not subject to the AMT, exercising ISOs may push you into its range.
- If you are subject to the AMT in the year you exercise ISOs, you may be entitled to an AMT credit carryover for use in some later year.)

# Incentive Stock Option

A

R

M

- **ISOs at sale of stock**

- When you sell ISO stock, you generally are taxed at favorable long-term capital gain rates on the difference between the price you paid for the stock and the amount you realize on its sale.
- However, if you sell the stock within two years of the option grant or within one year of the option exercise, you'll have compensation income to the extent of your bargain element at exercise.
- The balance of your gain is capital gain, which will be taxed at favorable rates if you've held the stock for more than one year on the sale date.

# Incentive Stock Option

A

R

M

- **ISOs at sale of stock**
  - Any income on disposition of the stock isn't subject to FICA or FUTA taxation, but it is subject to City tax.
  - Additionally, any income resulting from a disqualifying disposition of stock acquired under an ISO isn't subject to withholding, which makes it very important to run a tax projection to determine the amount of tax due.

# Incentive Stock Option

A

R

M

- **Example**

- John has 1,000 ISOs with an exercise price of \$10 per share.
- John exercises the shares when the stock price is \$100 per share.
- What is the regular income tax when John exercises all 1,000 shares?

# Incentive Stock Option

A

R

M

- **Example**

- John would have no regular income tax associated with the exercise.
- For AMT purposes, he would need to include the bargain element in AMT taxable income.
- Bargain element would be \$90 per share.  
 $\$90 * 1,000 \text{ shares} = \$90,000.$

# Incentive Stock Option

A

R

M

<b>Alternative Minimum Tax</b>		
	Baseline	ISO Exercise
<b>Taxable Income:</b>	479,175	479,175
<b>Preferences &amp; Adjustments:</b>		
Standard Deduction	25,900	25,900
Itemized Deduction Floor	0	0
Private Activity Bond Interest	0	0
Section 1202 Exclusion Preference	0	0
Other Deferral Preferences	0	90,000
Carry Through Reg Tax NOL	No	No
Regular Tax NOL	0	0
Total AMT NOL Not Subj to 100%	0	0
<b>Alt Min Taxable Income</b>	<b>505,075</b>	<b>595,075</b>
AMT Exemption Before Phase-out	118,100	118,100
Adjusted AMT Exemption	118,100	118,100
Exemption After Phase-out	118,100	118,100
<b>Taxable Excess</b>	<b>386,975</b>	<b>476,975</b>
Tent Min Tax from Schedule	104,231	129,431
Tent Min Alt Capital Gains Tax	103,939	129,139
Tent Min Tax Bef AMT Foreign Tax Cr	103,939	129,139
AMT Foreign Tax Credit Allowed	0	0
<b>Tentative Minimum Tax</b>	<b>103,939</b>	<b>129,139</b>
Regular Tax Before Foreign Tax Cred	114,768	114,768
Foreign Tax Credit Allowed	0	0
<b>Regular Tax</b>	<b>114,768</b>	<b>114,768</b>
<b>Alternative Minimum Tax</b>	<b>0</b>	<b>14,371</b>

# Incentive Stock Option

A

R

M

<b>Summary Report</b>		
	Baseline	ISO Exercise
<b>Income:</b>		
Wages	500,000	500,000
Interest & Dividends	5,075	5,075
<b>Total Income</b>	<b>505,075</b>	<b>505,075</b>
<b>Total Adjustments</b>	<b>0</b>	<b>0</b>
<b>Adjusted Gross Income</b>	<b>505,075</b>	<b>505,075</b>
<b>Personal Exemptions</b>	<b>0</b>	<b>0</b>
<b>Total Itemized</b>	<b>0</b>	<b>0</b>
Standard Deduction	25,900	25,900
<b>Total Deductions from AGI</b>	<b>25,900</b>	<b>25,900</b>
<b>Taxable Income</b>	<b>479,175</b>	<b>479,175</b>
<b>Regular Tax:</b>		
Schedule or Table Tax	115,217	115,217
Alternative Capital Gains Tax	114,768	114,768
<b>Appropriate Regular Tax</b>	<b>114,768</b>	<b>114,768</b>
<b>Net Alternative Minimum Tax</b>	<b>0</b>	<b>14,371</b>
High Income HI, Medicare & Other Tax	2,443	2,443
<b>Total Federal Taxes</b>	<b>117,211</b>	<b>131,582</b>

# Incentive Stock Option

A

R

M

- **Example**

- In 2023, John now sells his shares for \$100 per share after holding the shares for over a year.
- Previously, he had no regular income tax, but now he has to pick up a \$90,000 long-term capital gain for regular tax purposes.
- For AMT purposes, he has a basis of \$100 in the shares, thus no long-term gain to pick-up for AMT.

# Incentive Stock Option

A

R

M

## Alternative Minimum Tax

	2022	2023
<b>Taxable Income:</b>	<b>479,175</b>	<b>569,175</b>
<b>Preferences &amp; Adjustments:</b>		
Standard Deduction	25,900	25,900
Itemized Deduction Floor	0	0
Private Activity Bond Interest	0	0
Section 1202 Exclusion Preference	0	0
Regular Tax Capital Loss or Gain	0	-90,000
Other Deferral Preferences	90,000	0
Carry Through Reg Tax NOL	No	No
Regular Tax NOL	0	0
Total AMT NOL Not Subj to 100%	0	0
<b>Alt Min Taxable Income</b>	<b>595,075</b>	<b>505,075</b>
AMT Exemption Before Phase-out	118,100	118,100
Adjusted AMT Exemption	118,100	118,100
Exemption After Phase-out	118,100	118,100
<b>Taxable Excess</b>	<b>476,975</b>	<b>386,975</b>
Tent Min Tax from Schedule	129,431	104,231
Tent Min Alt Capital Gains Tax	129,139	103,939
Tent Min Tax Bef AMT Foreign Tax Cr	129,139	103,939
AMT Foreign Tax Credit Allowed	0	0
<b>Tentative Minimum Tax</b>	<b>129,139</b>	<b>103,939</b>
Regular Tax Before Foreign Tax Cred	114,768	130,866
Foreign Tax Credit Allowed	0	0
<b>Regular Tax</b>	<b>114,768</b>	<b>130,866</b>
<b>Alternative Minimum Tax</b>	<b>14,371</b>	<b>0</b>

RELATIONSHIPS | built on results

An Independent Member of BKR International

[www.armcpa.com](http://www.armcpa.com)

# Incentive Stock Option

A

R

M

## Summary Report

	2022	2023
<b>Income:</b>		
Wages	500,000	500,000
Interest & Dividends	5,075	5,075
Capital Gains & Losses	0	90,000
<b>Total Income</b>	<b>505,075</b>	<b>595,075</b>
<b>Total Adjustments</b>	<b>0</b>	<b>0</b>
<b>Adjusted Gross Income</b>	<b>505,075</b>	<b>595,075</b>
<b>Personal Exemptions</b>	<b>0</b>	<b>0</b>
<b>Total Itemized</b>	<b>0</b>	<b>0</b>
Standard Deduction	25,900	25,900
<b>Total Deductions from AGI</b>	<b>25,900</b>	<b>25,900</b>
<b>Taxable Income</b>	<b>479,175</b>	<b>569,175</b>
<b>Regular Tax:</b>		
Schedule or Table Tax	115,217	146,717
Alternative Capital Gains Tax	114,768	130,866
<b>Appropriate Regular Tax</b>	<b>114,768</b>	<b>130,866</b>
Nonrefundable Credits	0	-14,371
Net Alternative Minimum Tax	14,371	0
High Income HI, Medicare & Other Tax	2,443	5,863
<b>Total Federal Taxes</b>	<b>131,582</b>	<b>122,358</b>

# Incentive Stock Option

A

R

M

- **Planning Opportunity**

- Exercise enough shares at year-end to start the holding period for long-term capital gain, but avoid having to come out of pocket for AMT.
- Note: The AMT adjustment is calculated at the time the shares are exercised, thus be sure to have cash set aside for any AMT tax liability.
- Note: Stock price/investment risk matters!

# Incentive Stock Option

A

R

M

## Alternative Minimum Tax

	2022
<b>Taxable Income:</b>	<b>479,175</b>
<b>Preferences &amp; Adjustments:</b>	
Standard Deduction	25,900
Itemized Deduction Floor	0
Private Activity Bond Interest	0
Section 1202 Exclusion Preference	0
Regular Tax Capital Loss or Gain	0
Other Deferral Preferences	38,680
Carry Through Reg Tax NOL	No
Regular Tax NOL	0
<b>Total AMT NOL Not Subj to 100%</b>	<b>0</b>
<b>Alt Min Taxable Income</b>	<b>543,755</b>
AMT Exemption Before Phase-out	118,100
Adjusted AMT Exemption	118,100
Exemption After Phase-out	118,100
<b>Taxable Excess</b>	<b>425,655</b>
Tent Min Tax from Schedule	115,061
Tent Min Alt Capital Gains Tax	114,769
Tent Min Tax Bef AMT Foreign Tax Cr	114,769
AMT Foreign Tax Credit Allowed	0
<b>Tentative Minimum Tax</b>	<b>114,769</b>
Regular Tax Before Foreign Tax Cred	114,768
Foreign Tax Credit Allowed	0
<b>Regular Tax</b>	<b>114,768</b>
<b>Alternative Minimum Tax</b>	<b>1</b>

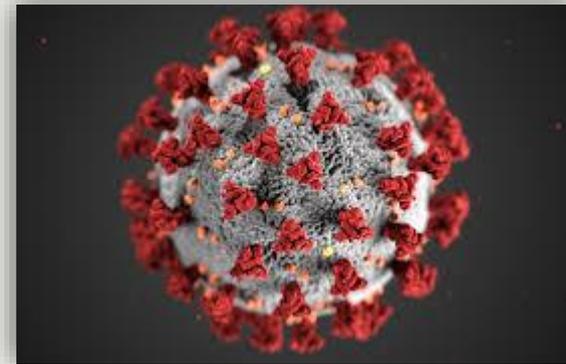
# Days out of city

A

R

M

- How many people live in a non-taxing city?
- How many people ever travel for work or work from home?



# Case study

A R M

- John makes \$400k per year
- Travels or works from home 34 days during the year
- Works in city with tax rate of 2.5%
- Lives in non-taxing city

# Days out calc



- If you work 34 days outside of the 2.5% taxing district and received a \$400,000 salary, you would only be required to pay city tax on \$340,844 of those earnings. Your total city tax refund would be \$1,479.

If you were a nonresident employee who worked part of the year outside the city for which your employer withheld city tax complete Lines 18 through 28. Attach a list of the dates and locations worked out See instructions.

18. Enter the total number of vacation days taken during the entire year .....	18	20
19. Enter the total number of holidays for the entire year .....	19	10
20. Enter the total number of sick leave days taken during the entire year .....	20	
21. Add Lines 18 through 20 .....	21	30
22. Subtract line 21 from 260 (total workdays in a year) (see instructions) .....	22	230
23. Enter your total wages for this job for the year .....	23	400,000.
24. Enter the amount of 2108 expenses related to this income. <u>Attach a copy</u> of the 2108 & Fed Sch A .....	24	
25. Subtract Line 24 from 23. If less than zero, enter zero .....	25	400,000.
26. Divide Line 25 by the number of days shown on Line 22 .....	26	1,739.
27. Enter the number of days worked in the city (Line 22 less total days worked out) .....	27	196
28. Multiply Line 26 by Line 27. List this figure in Part A of Page 1 along with any other taxable wages you or your spouse earned. <u>Complete Certification by Employer below</u> .....	28	340,844.

Part B TAX CALCULATION A Declaration of Estimated City Tax (form IR-21) is REQUIRED for all individuals whose tax is not fully withheld.								
Column A CITY	C O D E	Column B INCOME FROM WAGES, SALARIES, COMMISSIONS, ETC. (SEE NET WAGES)	Column C INCOME FROM NET PROFITS, RENTS AND OTHER TAXABLE INCOME	Column D TOTAL NET TAXABLE INCOME	TAX RATE	Column E TAX DUE	Column F LESS TAX WITHHELD (W-2) PAID BY A PARTNERSHIP OR PAID DIRECTLY TO CITY WHERE INCOME WAS EARNED	Column G NET TAX DUE
COLUMBUS	01	340,844.		340,844.	2.5%	8,521.	10,000.	-1,479.
GROVEPORT	08				2.0%			

# Ohio City Tax Change

A

R

M

- Governor DeWine signed into law, House Bill 197 on March 27<sup>th</sup>, 2020.
  - Employees working from home during the pandemic are considered to be working in the location where they would typically be reporting on a regular and ordinary basis (i.e., their principal place of work). To expire 30 days after emergency order ends.
  - Ohio's emergency order ended June 18<sup>th</sup>, 2021, thus withholding modification ended July 18<sup>th</sup>, 2021.
  - Several taxpayers have filed suit against Cleveland and Columbus, among other cities, to secure 2020 tax refunds for days that were not worked at their principal place of work due to Ohio's stay-at-home order.
  - **On June 7, 2022, the Supreme Court of Ohio accepted an appeal of a decision by the Court of Appeals for Hamilton County to uphold Cincinnati's imposition of income tax on a nonresident working remotely during the COVID-19 pandemic.**
  - As we wait for further 2020 guidance, employees may file protective refund claims if they believe a refund is due to the temporary municipal withholding provisions.

# Ohio City Tax Change

A

R

M

- Governor DeWine signed into law, House Bill 110 on July 1, 2021
  - HB 110 allows, but does not require, employers to extend the HB 197 withholding procedures through December 31, 2021.
  - Effective January 1, 2022, employers will be required to revert back to the pre-COVID 20-day rule.
  - HB 110 will allow employees to file refund claims with their principal place of work city for days they did not work within the withholding city during 2021 only.
  - Some legislators also wanted to extend the refund opportunity back to 2020, but ultimately decided to leave the 2020 employee municipal refund opportunity up to the courts.

# City Withholding

A R M

- There have been significant city income tax withholding changes for 2022. These new rules were effective January 1, 2022, therefore action may need to be taken immediately to comply with these rules.
- If you are an employer you are now required to withhold city tax on your remote workers based on their actual work location, if their work days at that location exceed 20 days.

# City Withholding

A R M

- For example, if your business is located in Columbus but you have an employee working from his/her home in Upper Arlington, you should be withholding Upper Arlington city tax on wages paid to that employee for work days in Upper Arlington.
- If the remote employee works less than 20 days in a location, withholding is not required but permissible.

# City Withholding

A R M

- If you are an employee working remotely, you should verify that the correct city tax is being withheld based on your actual work location.
- For example, if your employer's office is located in Columbus but you routinely work from your home in Grove City two days a week, your employer should be withholding Columbus city tax on 60% of your wages and withholding Grove City tax on 40% of your wages.

# City Withholding

A

R

M

- Increased income tax filing requirements for businesses.
- Having an employee working from home would result in the business having to file an income tax return in that city.
- If many people working from home in several cities, there can be a significant increase in filing requirements.

# Centralized Filing

A R M

**Ohio** | Department of Taxation

Resources for INDIVIDUALS   Resources for **BUSINESSES**   Resources for GOVERNMENT   Resources for PROFESSIONALS   Resources for RESEARCHER



## Municipal Net Profit Tax

The enactment of HB 49 provides business taxpayers the option, beginning with the 2018 tax year, to file one municipal net profit tax return through the Ohio Business Gateway (the Gateway) for processing by the Department of Taxation. The Department will handle all administrative functions for those centrally-filed returns and will distribute payments to the appropriate municipalities. The Department will also handle audits and appeals.

**BUSINESSES**

FILE ONLINE

PAY ONLINE

GET A FORM

**OHIO BUSINESS TAXES**

OBG LOGIN

ONLINE SERVICES FOR BUSINESS

REGISTER FOR TAXES

HOW DO I

**Municipality/Local Government Portal**

- [Link to portal](#)
- [Municipality/Local Government Portal User Guide](#)
- Webinar "[Logging in to the Municipal Portal](#)" (11.15.18)
- [Submitting Taxpayer Information via the Local Government Portal](#) (6.11.19)

**Important Information for Municipal Corporations**

- [Revenue Accounting Municipal Net Profit Tax Webpage](#)

**Important Information for Taxpayers**

- [Information Booklet for Taxpayers](#)
- [Municipalities and Municipality Codes List](#)
- [Municipality Address List](#)

**Registration**

Taxpayers must make an election to file with the Department on or before the fifteenth day of the fourth month of their taxable year. For example, taxpayers that operate on a calendar year basis are required to opt-in to file with the commissioner on or before Friday, April 15th, 2022 for taxable year 2022. The election will remain in effect until terminated by the taxpayer.

RELATIONSHIPS | built on results

An Independent Member of BKR International

[www.armcpa.com](http://www.armcpa.com)

# Volatile Market

A R M

- Roth Conversions
  - Client in gap years
  - Younger client with small pre-tax IRA
  - High income/business owner with low income year
- Tax loss harvesting
- Safe harbor estimates appropriate? Run tax projections.
- Back-door Roth – Complete early in the year?

# 10 Year Rule

A R M

- <https://www.kitces.com/blog/irs-proposed-regulations-secure-act-rmds-eligible-designated-beneficiaries-see-through-trusts/>

## The Impact Of New IRS Proposed Regulations On The SECURE Act: RMDs, Eligible Designated Beneficiaries, Trusts, And More!

MARCH 2, 2022 07:03 AM

[16 Comments](#)

CATEGORY: [Taxes](#)

Then, in early 2021, the IRS issued its annual update to Publication 590-B, *Distributions from Individual Retirement Arrangements (IRAs)*, which included an example that seemed to indicate that Non-Eligible Designated Beneficiaries would be required to abide by ‘regular’ ‘stretch’ RMDs in *addition* to the 10-Year Rule. Practitioners immediately raised questions about the Publication, and within weeks, an IRS spokesperson indicated that the initial version contained a mistake, and that a corrected version of the Publication would soon be made available.

# 10 Year Rule

A R M

More specifically, the revised Publication of 590-B stated:

**10-year rule.** *The 10-year rule requires the IRA beneficiaries who are not taking life expectancy payments to withdraw the entire balance of the IRA by December 31 of the year containing the 10<sup>th</sup> anniversary of the owner's death. For example, if the owner died in 2020, the beneficiary would have to fully distribute the plan by December 31, 2030. The beneficiary is allowed, but not required, to take distributions prior to that date.*

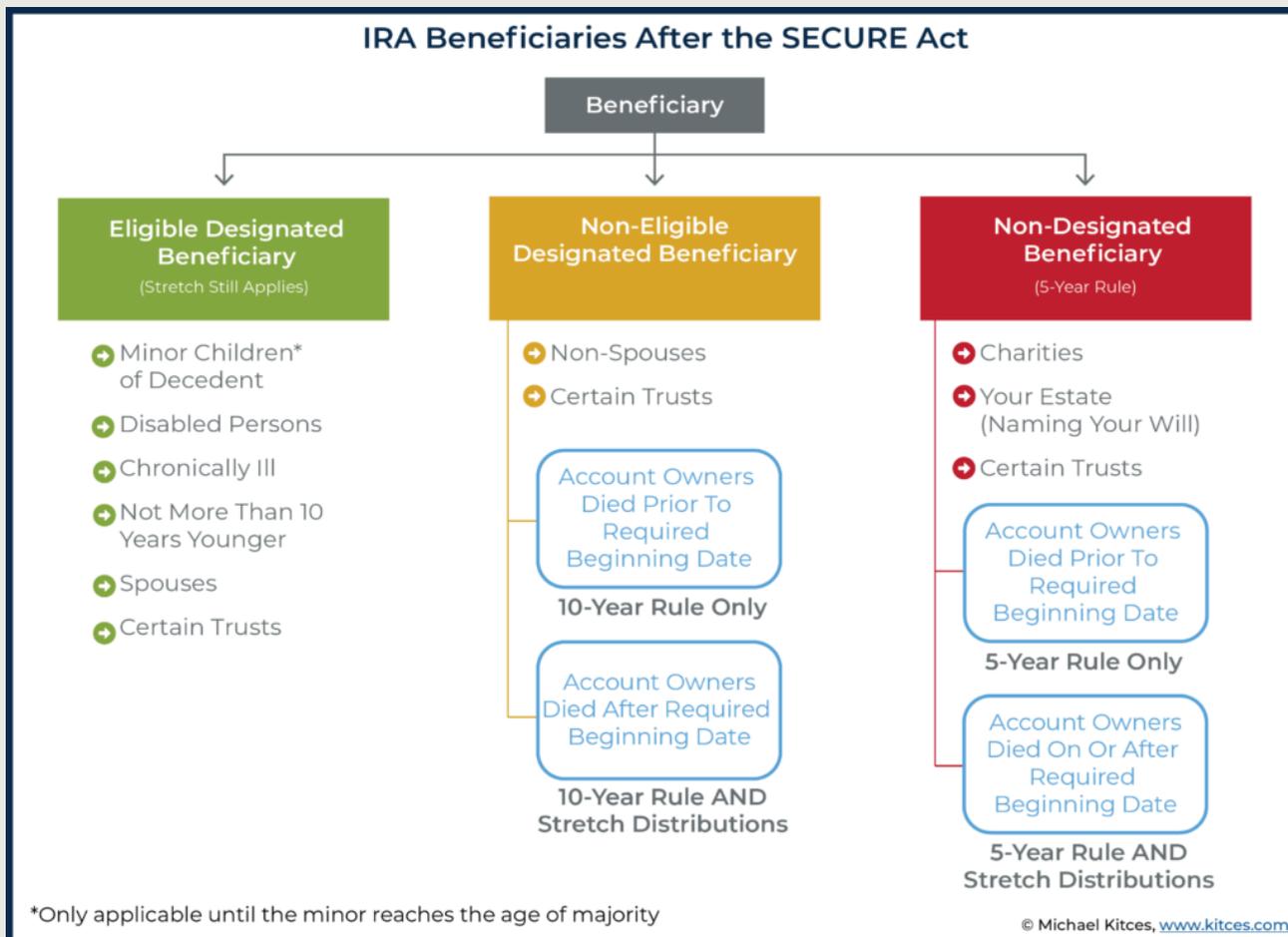
In what can only be considered an incredibly surprising turn of events, the new Proposed Regulations seek to implement a remarkably complex system, whereby Non-Eligible Designated Beneficiaries would be split into two distinct groups, each with their own set of post-death distribution rules.

# 10 Year Rule

A

R

M



# 10 Year Rule - Update

A

R

M

- On October 7, 2022, the IRS waived the 50% penalty on missed 2021 and 2022 inherited retirement account RMDs for beneficiaries subject to the SECURE Act 10-year payout period.
- The guidance was in IRS Notice 2022-53.

# 10 Year Rule - Update

A R M

- The Notice says the IRS will not impose the penalty for missed 2021 or 2022 RMDs within the 10-year period if the account owner died in 2020 on or after his required beginning date with a beneficiary who is not an eligible designated beneficiary (“EDB”). (The “required beginning date” is April 1 of the year after the year the IRA owner turns 72.)
- The IRS also will not impose a penalty for a missed 2022 RMD within the 10-year period by a beneficiary who is not an EDB, if the account owner died in 2021 on or after his required beginning date.

# 10 Year Rule - Update

A

R

M

- The IRS says that a penalty on missed RMDs within the 10-year term will not be imposed until 2023 at the earliest.
- If a beneficiary already paid the penalty for a missed 2021 RMD, the beneficiary can request a refund from the IRS.
- Although the Notice is not clear, it appears that, since the penalty is waived, the missed RMDs do not have to be taken at all.

- **Energy Efficient Home Improvement Credit**

- Extension and expansion of the residential energy property credit for homeowners.
- New energy-efficient windows, doors, water heaters, furnaces, air conditioners, etc.
- So, if you spread out your qualifying home projects, you can claim the maximum credit each year.
- The annual limitation increases to \$1,200 per taxpayer per year. The lifetime limit on the credit of \$500 has been repealed.

# Federal Tax Reform

A R M

- **Beginning in 2023**

- \$150 for home energy audits;
- \$250 for an exterior door (\$500 total for all exterior doors);
- \$600 for exterior windows and skylights; central air conditioners; electric panels and certain related equipment; natural gas, propane, or oil water heaters; natural gas, propane, or oil furnaces or hot water boilers; and
- \$2,000 for electric or natural gas heat pump water heaters, electric or natural gas heat pumps, and biomass stoves and boilers (for this one category, the \$1,200 annual limit may be exceeded).

- **Residential Clean Energy Credit**

- Previously, the credit was worth 26% of the cost to install qualifying systems that use solar, wind, geothermal, biomass or fuel cell power to produce electricity, heat water or regulate the temperature in your home.
- The credit amount jumps to 30% from 2022 to 2032. It then falls to 26% for 2033 and 22% for 2034. The credit will then expire after 2034.

- **High-Efficiency Electric Home Rebates**
  - The High-Efficiency Electric Home Rebate Program will also help American families go green.
  - Provides rebates to low- and middle-income families who purchase energy-efficient electric appliances.
  - To qualify for a rebate, your family's total annual income must be less than 150% of the median income where you live.

# Federal Tax Reform

A R M

- Qualifying homeowners can get rebates as high as:
  - \$840 for a stove, cooktop, range, oven, or heat pump clothes dryer;
  - \$1,750 for a heat pump water heater; and
  - \$8,000 for a heat pump for space heating or cooling.
- Rebates for non-appliance upgrades will also be available up to the following amounts:
  - \$1,600 for insulation, air sealing, and ventilation;
  - \$2,500 for electric wiring; and
  - \$4,000 for an electric load service center upgrade.

# Federal Tax Reform

A R M

- Credits for purchasing both new and used electric vehicles.
  - EVs placed into service after December 31, 2022, the Inflation Reduction Act extends the up to \$7,500 EV tax credit for 10 years—until December 2032.
  - The exact amount of the credit will be based on a calculation that considers factors like the vehicle's sourcing and assembly.
  - Additionally, used EVs will now have a separate tax credit of either up to \$4,000 or 30% of the price of the vehicle, whichever is less.

# Federal Tax Reform

A R M

- Beginning in 2024, you can take the EV tax credit as a discount at the time you purchase the vehicle.
- Essentially, you would be transferring the credit to the dealer, who would be able to lower the price of the vehicle by the amount of the credit.
- This means that you won't have to wait until tax time to benefit from the EV tax break.

# Federal Tax Reform

A R M

- If you're single, and your modified adjusted gross income is over \$150,000, you won't qualify for the EV tax credit.
- The income limit for married couples who are filing jointly is \$300,000.
- And if you file as head of household and make \$225,000 or more, you also won't be able to claim the credit.

# Federal Tax Reform

A R M

- Vans, pickup trucks, and SUVs with a manufacturer's retail suggested price (MSRP) of more than \$80,000, won't qualify for the credit.
- For clean cars to qualify for the EV tax credit, the MSRP can't be more than \$55,000.
- If you buy a used clean vehicle, it will only qualify for the tax credit if it costs \$25,000 or less.
- The Inflation Reduction Act removes the manufacturer cap, which means that some cars made by manufacturers who exceeded the 200,000 limit (e.g., General Motors, Toyota, and Tesla) will now be eligible to claim the credit.

# Federal Tax Reform

A

R

M



Table II: Contextualizing IRS Funding Increases

	Previous 10-Year Projections	Additional 10-Year Funding	Percentage Increase
Enforcement	\$66.0 billion	+\$45.64 billion	69%
Operations Support	\$47.6 billion	+\$25.33 billion	53%
Business System Modernization	\$3.1 billion	+\$4.75 billion	153%
Taxpayer Services	\$33.6 billion	+\$3.18 billion	9%
Total	\$150.3 billion	+\$78.90 billion	+52%

RELATIONSHIPS | built on results

# Questions?



happy  Halloween



**William T. Vasil**  
CPA, CFP®, MAcc  
Principal | Tax Advisors

📞 614.545.2049  
☎ 614.486.3400  
✉ [wvasil@armcpa.com](mailto:wvasil@armcpa.com)

**A R M**

**RELATIONSHIPS | built on results**

*An Independent Member of BKR International*

**RELATIONSHIPS | built on results**