



Newsletter

SEPTEMBER 2022

Freddi Eberhart & Associates Inc. would like to thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, and associates. We truly appreciate your referrals.

This Month:

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

This month's newsletter recaps the details of the executive order regarding student loan forgiveness and of the newly passed legislation on the revamped electric vehicle tax credit and other energy credits.

Also included this month are some tips on how to make college more affordable.

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

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.** 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

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Student Loan Forgiveness Q&A (Cont'd)

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.** Income cannot 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

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Student Loan Forgiveness Q&A (Cont'd)

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.*

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.

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New Electric Vehicle and Other Energy Credits (Cont'd)

- 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.

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New Electric Vehicle and Other Energy Credits (Cont'd)

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.

Here's How To Make College More Affordable

Students can earn college credits while still in high school

With the cost of college rising rapidly, it can be overwhelming to think about how to pay your way through school for either yourself or your kids. Fortunately, saving hundreds, even thousands, is possible. Teenagers can help keep down the cost of their future college tuition by taking the following classes and exams while in high school:

1. **Advanced Placement (AP) classes** and exams provide the opportunity for high school students to take college-level classes at their high school and an exam at the end of the school year. Many colleges will accept AP credits as placement and/or college credit. Most will accept a passing grade of 3, but some universities may require a score of 4 or 5 to earn college credit. (AP exam scores range from 1-5.)

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Here's How To Make College More Affordable (Cont'd)

2. **College Level Examination Program (CLEP) tests** also offer the opportunity to earn college credit by passing an exam. However, instead of taking a class, you must study on your own and schedule an exam at a testing center when you're ready. CLEP exams receive a score between 20 and 80. A score of 50 is typically the passing score to obtain college credit, but each university sets its own requirement. It is important to note that while many colleges accept CLEP credits, some top schools do not accept CLEP credits.
3. **Dual enrollment classes** allow high school students to take college courses at a local college or university and earn both high school and college credit. You must be a high school junior or senior to qualify for the program. Dual enrollment credits are widely transferable.

Cost of Exams and Potential Savings

AP exams cost \$94, CLEP tests cost \$85 plus an additional administrative fee while dual enrollment programs pay for tuition, fees and books. According to the College Board, the average cost of a 3-credit class at a four-year college ranges from \$942 to \$3,243, meaning for each 3-credit class you test out of, you save hundreds - potentially thousands - of dollars!

Additionally, earning college credit in high school can enable you to finish college in less than four years. Just make sure that when you're choosing a college, you pay attention to whether or not the schools accept AP and/or CLEP exam scores as credit.

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

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