

## MESSAGE from the PRESIDENT

Dear Members,



**LET ME BEGIN**, with saying what an honor it is to have the opportunity to serve as your chapter president. I am looking forward to leading this incredible board. Each member of the BOD comes with so much knowledge as tax preparers, and as leaders of this organization, and, with their help I can only succeed.

I regret that I could not introduce myself at our **Famous NJ State Tax Seminar** this past January. I can only say that I was enjoying some warm sun on my honeymoon, and it was lovely. In the future I will make an effort to meet you all.

As this tax season begins, I can say that I had faith that it would not be as chaotic as the past few years, without RRC & early CTC payments. That being said, it is still January. Time will tell.

This organization, and the NJ Chapter specifically, aim for a level of camaraderie amongst the members of this profession. Along with that, our goal is to bring you the most recent topics from most educated presenters. We encourage each of you to reach out and let us know what you are interested in learning. All of us are looking to improve our skill set, so no topic needs to be off limits. Keep in mind that our chapter education focus is on state tax topics, while our National parent organization focuses on Federal topics. We will do our best to get the information to you.

**Taxposium.** This July we are heading to San Antonio! We hope each of you consider taking a few days to join this event being held at the Grand Hyatt July 24-26. The speakers are considered the best in the country and are always on top of the latest changes on federal topics. It is a great way to network and always a lot of fun. Plus the New Jersey members will all be invited to an evening on the town. Details about Taxposium and the NJ event will be advertised further in the months coming.

Remember to utilize the NJ NATP Facebook page and also the NATP page. There is a wealth of knowledge outpouring on those pages among the members of the organization. Often I find myself reading through member questions that I was unaware could even be a taxable situation.

The IRS supposedly hired 87,000 new agents. Are they coming after small businesses and looking to audit? I'm just hoping they answer the phones and with any luck, maybe they will open all of 2019's mail.

For now, I wish you all a healthy, stress free and prosperous tax season.

Sincerely,

**Alyce R. Taylor**

*Alyce has been a member of NATP for over 10 years. She is a partner at Taylor Tax Group with her mother, former NJ President and National Board Director, Colette A G Taylor. Their practice is Barrington NJ and Alyce is in the beginning stages of opening another practice in Sea Isle City, NJ. Alyce has served as the Vice President of NJNATP for the past 2 years.*

## save the DATE

### INHERITANCE TAX WITH STATE BREAKOUTS

**THURSDAY, JUNE 1, 2023**

Location: Grand Resort Hotel  
(previous ML Hotel), Mt. Laurel

TOPICS: Speakers TBA

### NATIONAL TAXPOSIUM

**JULY 24-26, 2023**

Location: Grand Hyatt, San Antonio, TX

### WEBINAR

**AUGUST, 2023**

TOPICS: Speakers TBA

### NATP NATIONAL TAX FORUM

**SEPTEMBER 18-19, 2023**

Location: Hilton Inner Harbor, Baltimore, MD

### NJNATP ANNUAL CONFERENCE AND ANNUAL MEETING

**THURSDAY, SEPTEMBER 28, 2023**

SPEAKER: Kathryn Keane

Location & Topics: TBA

### PRACTICE MANAGEMENT AND LEADERSHIP MEETING

**TUESDAY, DECEMBER 5, 2023**

Location & Topic: TBA

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# From the Editor

BY JEAN MILLERCHIP, EA



**H**ERE WE GO AGAIN!! ARE YOU READY??  
I'm betting that most of us are still finishing 2021 tax returns, and now our attention has to turn to the 2022 tax return with some new changes.

Hopefully you were able to attend the Famous NJ State Tax Seminar on January 14th- our first in person state seminar since 2020. Our excellent speakers from Taxation University brought us up to date pertinent information, and, of course, Kathryn Keane updated us on NYS and some late-breaking federal updates. A new event is being planned for June 1, 2023- in Mount Laurel; a full day event on Inheritance Tax with state breakouts from 3 states in the afternoon. Watch for the details when available! This is something you've been asking for! The location and topics are in the planning stage for the NJNATP Annual Conference on September 28, 2023- but the speaker will be Kathryn Keane!

The NJ Chapter is very happy to welcome several new members to the Board of Directors: Dennis O'Brien from Farmingdale and Pat DeSanto from Sicklerville were elected at the Annual Meeting in October. Teresa Marron, CPA from Toms River was appointed to fill a vacancy, and Jason Daughtry from Mays Landing was also appointed to the Board. We look forward to new ideas and suggestions from all of you!! Welcome!

Give some thought to the NATP Taxposium this summer in San Antonio; it is from July 24-26th, so a bit shorter than in the past, less time to be out of the office. There is always something special about meeting in person- something we all just took for granted before COVID. Seeing those friends we've made from around the country is always fun.

NJNATP's next newsletter is scheduled for May, and I would love to hear from some of you with some articles about how you coped with tax season. We all love to read about crazy stories that most of us can relate to! Frustrations that you had to deal with during tax season?

Hoping that you all have a successful tax season ( I won't say a calm one, because we know that doesn't exist!). Remember that NATP is always there for you- especially with the invaluable research department. Use your questions! Those of us who are premium members have 5 free questions; I have already used my first one!

Take some time to relax, and take some time for yourself. Especially if we get a beautiful spring day in March- take a walk and unwind for a little while.

Until next time.....

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*Jean Millerchip, EA has been in the tax business since 1976, and is in private practice in Lavallette, New Jersey. She earned her EA license in 1985. Jean has been a member of NATP since 1988, and served on the NJ Board of Directors from 1991 until 2009, in various positions, including Treasurer, Secretary, Vice President and President. In 2008, Jean was elected to the National Board of Directors, and served a full 9 year term, during which she served as the National Vice president for 5 years and the National President for 2 years. Jean can be reached at [jean.millerchip@gmail.com](mailto:jean.millerchip@gmail.com).*

# NJ TAX TIP OF THE QUARTER

## SPRING, 2023

BY MARILYN H. AYERS, CPA



**I**T IS HARD TO BELIEVE THAT TAX SEASON 2023 IS HERE! Didn't we just finish last year's filings? Let us all hope that this season will be easier than the last few years. It has certainly been a challenge. Seems to me there are more professional tax preparers exiting the field than entering.

During our "Famous" New Jersey state tax seminar held on Saturday, January 14, 2023, we learned that there are quite a few updates on the New Jersey side for the 2022 filing season. Here is a list of some of those changes:

- NJ has a new Child Tax Credit for families earning up to \$80,000 a year. The refundable credit ranges from \$100 to \$500 per child age 5 or younger for taxpayers who meet the filing requirements. It is not available for those taxpayers with a filing status of married filing separately.
- Beginning in 2022, Election Worker compensation is exempt and should not be reported on the NJ-1040
- A reminder that last year the Pension Exclusion income limits were increased from \$100,000 to \$150,000. The age and disability qualifications remain the same. It is phased out between \$100,000 and \$125,000 at 50% and 25% over \$125,000.
- NJ modified the NJ EITC by reducing the minimum age eligibility from 21 to 18. In addition, seniors over age 65 without dependents now qualify. However, the credit is still based on 40% of the federal credit. Federal guidelines for those without dependents are include taxpayers age 25 to 65.
- The NJ College Affordability Act provides three new deductions for taxpayers who are saving or paying for college effective for the 2022. If your 2022 NJ gross income is less than \$200,000, they can deduct:
  - Up to \$10,000 of contributions to a NJ BEST college savings account during the year
  - Up to \$2,500 of principal and interest paid on student loans during the year under the NJ CLASS program
  - Up to \$10,000 for tuition costs if the taxpayer, spouse, or their dependent enroll in, or attend a NJ institution of higher education.
- Don't forget to make your NJ BAIT election for 2022 timely. The latest date is March 15, 2023
- Finally, the 2019 Anchor program deadline was extended to February 20, 2023.

Have a great tax season, please stay healthy. As our friend Kathryn Keane, reminds us: put yourself first so you can help others! Just like the flight attendants tell us, put the oxygen mask on yourself first so you can help those around you!

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*Marilyn graduated from Rider University in June 1978 with a degree of Bachelor of Science in Accounting and earned her CPA license in 1990. Marilyn's practice, established in 1988, provides tax and accounting services to approximately 900 individual clients and businesses, where service is the number one priority. Marilyn has been a member of NATP since 2000 and served on the New Jersey Board of Directors from 2004 through 2016, including secretary, vice president and past president of the New Jersey Chapter. Marilyn is also a member of the AICPA and the New Jersey Society of CPAs.*

# STATE CHAPTER PERSON OF THE YEAR!

**E**ACH YEAR, the NJ Board of Directors recognizes a member from the general membership, who has made outstanding contributions to the NJ Chapter. For 2022, the person chosen was a past member of the NJ Board, stepped down for a few years, and, for 2023, has been reappointed to fill a vacant slot on the Board.

Teresa Marron has been a member of NATP for approximately 13 years. She ran for the Board several years ago and immediately jumped into action!! After serving on a number of committees, as well as frequently contributing to the newsletter, Teresa served as Vice President and Chair of Education for 2 years, then served as President. As the Chair of Education, Teresa worked tirelessly with her committee to make sure our education retained its top notch quality.

During the years she was not serving as a Board member, she was the Membership Chair, and kept us informed about membership changes. She was present at all Board meetings, most of which were virtual, due to COVID, and always offered meaningful suggestions. Teresa is often the first one to raise her hand when help is needed- she is the epitome of a perfect volunteer!



We, the NJ Chapter Board of Directors, are so grateful for her work on behalf of the Chapter. The award was presented to Teresa at the Famous NJ State Tax Seminar on January 14, 2023 at the APA in Iselin.

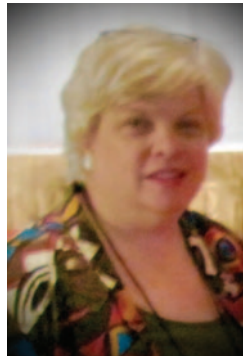
*Thank You Teresa!*

## A FIRST FOR NJNATP- LIFETIME ACHIEVEMENT AWARD!!!

**F**OR THE FIRST TIME IN THE HISTORY OF THE NJ CHAPTER, the Board of Directors made a decision to honor one of its long time members in a special way.

Gwen Radloff, EA has the distinct honor of being the longest serving member of the Board of Directors of NJNATP. Gwen ran for the Board and was elected in the late 1990's, and has served continuously since she recently stepped down in 2022. During her time on the Board, Gwen served as the Chapter Secretary, as well as serving on various committees.

You could always find Gwen at the registration table for each educational event, greeting the attendees, assisting with registration and handling materials, and then spending time throughout the day talking to the attendees and making them feel welcome. She was in charge of handling NJNATP's charity works, and keeping track of what was donated. During the years when the Board got together the night before an event to put together the packets to be handed out, Gwen was always first to



volunteer, and then made sure all the information was assembled correctly. At Board meetings, Gwen has always been an active participant-asking questions and sharing her thoughts and suggestions.

Gwen was always one of the NJ regulars who attended National Conference ( now Taxposium), bringing her enthusiasm for NATP and the NJ Chapter to the attendees from other chapters! Always smiling, Gwen was easily recognizable at National Conference, and when she missed Conference one year, the NJ Board was asked where she was!



With her tireless work over the years, the NJ Board felt they wanted to honor her for all she has done for the Chapter. This well deserved award was presented at the Famous NJ State Seminar on January 14, 2023 at the APA in Iselin.

*Congratulations, and thank you, Gwen !!*

## Please let Us Know! We want to recognize You...

BY JULIA ROBINSON

**ATTENTION ALL NJNATP MEMBERS.** If you receive an award during 2023 for anything, tax related, charitable work, assisting with disaster relief, or anything else, we want to know about it. NJNATP is all members not just the members on the Board of Directors. We are interested in all your good works. As the Board of Directors Communication Chairperson, please contact me at [Julia@mhacpanj.com](mailto:Julia@mhacpanj.com) and let me know. We want to spread the word that NJNATP Members are out there doing good for our communities. We are very proud of all our members and want to let everyone know.

# ANGELS COMMUNITY OUTREACH

## PROVIDING A HAND UP AND SPREADING KINDNESS

BY JEAN MILLERCHIP, EA

**A**NGELS COMMUNITY OUTREACH was founded in June, 2009 by a then 12-year old named Katelyn Darrow. It was originally named Angels of God and started out as a clothing closet. Clients can come into the storefront and “shop” for free; nothing is sold at the clothing closet, but is given to families and individuals in need.

Now, in addition to the clothing closet, Angels Community Outreach also has a small food and toiletry bank where those in need can receive those items for free.

**Throughout the year, they hold seasonal events:**

**A BACK TO SCHOOL DRIVE**, where children receive a backpack filled with school supplies, as well as socks and underwear.

**CHRISTMAS TOY DRIVE** – again for needy families who need some extra help during the holiday season. Thanksgiving Basket, so that families in need can celebrate a traditional Thanksgiving meal.

**PET FOOD PANTRY**, so families can receive pet food for their furry family members! Once a month they deliver to the elderly or disabled.

**VETERANS ANNUAL LUNCHEON** – every year, a community luncheon is held for veterans; lunch is served, live music for entertainment, and goodie bags to go, as a thank you for their service.

**EASTER BASKETS**, for needy children, many of whom are in domestic violence shelters or other county shelters. They receive a traditional Easter basket filled with goodies.

**HALLOWEEN COSTUMES, PROM DRESSES FOR TEENS, ANNUAL HOLIDAY PARTIES**, such as Easter and Christmas, for children living in homeless shelters and low income families who can enjoy a fun filled day.

These are only a few of the programs given by this amazing organization, started by one 12 year old girl, who, with her mother and siblings had to escape a domestic violence situation. So many generous people helped them along the way, so this became her way of giving back.

An amazing undertaking and one the NJ Chapter is proud to support. I invite you to go to their website (<https://angelsoutreach.org/>) to read about all the inspiring programs.

## Thanks for your **GENEROSITY**

**P**RESENTATION OF NJNATP'S \$500 CASH DONATION as well as several boxes of warm clothing and accessories by **Joe Wisniewski**, NJ Board member, to **Elissa Darrow**, director of The Angels Community Outreach in Pitman, NJ.

The organization was very thankful to NJNTP for having adopting them as our annual charity.

Thanks to the NJ members for their continued generosity.

Included is their website, in case you would like to send a monetary donation: <https://angelsoutreach.org/>



*Please read the article above that gives you more background into the founding of this organization and how it has grown.*

## Is Airbnb Rental Income Subject to Self-Employment Tax?

Do you owe self-employment tax on Airbnb rental income?

That's a good question.

In Chief Counsel Advice (CCA) 202151005, the IRS opined on this issue.

But before we get to what the IRS said, understand that the CCA's conclusions cannot be cited as precedent or authority by others, such as you or your tax professional.

Even so, we always consider what the CCA says as semi-useful information, so here's some analysis that goes beyond what the IRS came up with.

### The Exact Question

To be specific, the CCA asks whether net income from renting out living quarters is excluded from self-employment income under Section 1402(a)(1) when you're not classified as a real estate dealer.

If excluded under IRC Section 1402(a)(1), you don't owe self-employment tax on your net rental income. Needless to say, that's the outcome you want to see, and I'm here to help.

The taxpayer addressed in this CCA was an individual who owned and rented out a furnished beachfront vacation property via an online rental marketplace (such as Airbnb or VRBO).

The taxpayer provided kitchen items, linens, daily maid service, Wi-Fi, access to the beach, recreational equipment, and prepaid vouchers for rideshare services between the rental property and a nearby business district.

### The CCA's Conclusions

According to the CCA, when you're not a real estate dealer, net rental income from renting out living quarters is considered rental from real estate and is therefore *excluded from self-employment income*—as long as you don't provide services to rental occupants.

The self-employment income exclusion for net rental income collected by a non-dealer is a statutory provision. The statute itself doesn't say anything about providing services.

But IRS regulations state that providing services to renters can potentially cause you to lose the exclusion from self-employment income.

According to the CCA, you must include the net rental income in calculating your net self-employment income—which could cause you to owe the dreaded self-employment tax (ugh!)—if you provide services to renters and the services

- are not clearly required to maintain the living quarters in a condition for occupancy *and*
- are so substantial that compensation for the services constitutes a material portion of the rent.

So, according to the CCA, determining whether providing services to renters will trigger exposure to the self-employment tax is the big issue for folks who rent out living quarters.

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The CCA's anti-taxpayer conclusion rests on the giant assumption that the services provided by the taxpayer were above and beyond what was required. But were they? Probably not!

### **The Customarily Issue**

According to IRS regulations, services are generally considered above and beyond the norm only if they exceed the services that are *customarily* provided to renters of living quarters.

Therefore, services that simply maintain a vacation rental property in a condition that is customary for rental occupancy should not be considered above and beyond and therefore should not trigger exposure to the self-employment tax.

In assessing whether services provided to renters are above and beyond what's customary, circumstances obviously matter.

In the real world of vacation rentals in expensive resort areas, renters customarily expect and receive lots of services that might be considered above and beyond in other circumstances.

For instance, in resort areas, renters customarily expect and receive cable service; Wi-Fi access; periodic housekeeping services, including changing bedding and towels; repair of failed appliances; replacement of burned-out lightbulbs; replacement of dead smoke alarm batteries; access to recreational equipment such as bicycles, kayaks, beach chairs, umbrellas, and coolers; and so forth and so on. That's a lot of services!

Why are lots of services provided in expensive resort areas? Because rental charges in expensive resort areas are—wait for it—expensive! The cost may be \$2,000 or more per week or \$5,000 or more per month, or even higher during peak periods—maybe much higher! So, rental amounts that could be attributed to the provision of all the aforementioned services would almost always be a small fraction of the overall rental charges.

In the context of expensive resort area vacation rentals, it's hard to imagine what services would be so above and beyond the norm that the property owner's net rental income would be exposed to the self-employment tax.

It shouldn't matter if the services are provided directly by the owner of the property (unlikely) or indirectly by a rental management agency and included as part of the fee paid by the owner of the property (likely).

### **The Substantiality Issue**

In assessing whether services provided to renters are above and beyond the norm, *substantiality* also matters.

A Tax Court decision addressed a situation where the taxpayer rented out trailer park spaces and furnished laundry services to tenants. The laundry services were clearly provided for the convenience of the tenants and not to maintain the trailer park spaces in a condition for rental occupancy. Tenants were not separately billed for the laundry services, and they were not separately paid for.

The Tax Court concluded that any portion of the rental payments that was attributable to the laundry services was not substantial enough to trigger exposure to the self-employment tax. Accordingly, the Tax Court opined that all of the trailer park owner's net rental income was excluded from self-employment income.

As stated above, in the context of the rental of expensive vacation properties, any portion of rental charges that could be attributed to the provision of services would likely be insubstantial in relation to the overall rental charges. If so, according to the Tax Court, the provision of such services would not expose the property owner to the self-employment tax.

# NJ BAIT- is it worth making the election?

BY MARILYN H. AYERS, CPA

**THE NEW JERSEY PASS-THROUGH BUSINESS ALTERNATIVE INCOME TAX** took effect on January 1, 2020. This law allows pass-through entities to pay income taxes at the entity level rather than at the individual level of the entity partners, members, or shareholders. It helps business owners mitigate the negative impact of the SALT limitations.

It has several benefits. First, the partner or shareholder can forgo making estimated payments personally and, instead, have the entity pay those estimated payments. In addition, the entity deducts NJ BAIT on their federal tax return and it reduces the income passed down to those partners, members or shareholders. It also has some restrictions and limitations.

First it applies only to entities taxed as either a partnership or an S-corporation, single member LLCs or regular C corporations are not eligible. However, a partner or member of an eligible entity may be a corporate entity. Second, it applies to the income of all members, partners, or shareholders. Effective for 2022, electing entities are no longer required to remit nonresident partner tax if the nonresident partner reasonably expects to be getting a refund due its BAIT credit. BAIT tax is due for all nonresident partners instead. It is an annual election made each year on or before the original due date of the tax return. The election cannot be made retroactively.

BAIT tax is paid by the entity to NJ tax based upon a graduated rate. For instance, the first \$225,000 of the member's share of distributive proceeds is calculated at a flat rate of 5.675%. Each member's share is added back to their share of income on either the NJ-1065 or NJ CBT-100S.

For example, if the partnership return reports \$10,000 in ordinary income and guaranteed payments of \$200,000 to all partners, the tax due with the NJ BAIT tax return would be \$11,917.50. That would be a deduction on the federal 1065. On the NJ 1065, that tax be added back to the partners distributive share of income. By reporting \$11,917.50 less in federal

income, the partners would save \$2,621.85 in federal income taxes collectively, assuming a 22% tax bracket. There would be no change to the NJ reportable income, but they would report their share of the BAIT payments on their NJ 1040 return as a credit against their GIT tax due.

During 2022, NJ updated their FAQs on their website and did a nice job of explaining the mechanics and benefits. I believe that most partnership who show profits and take guaranteed payments would benefit from the savings. I haven't come up with a scenario where an S Corporation would save significant taxes to make it worth the extra work. In theory, S Corporation shareholders must take reasonable compensation and that would keep any ordinary income to a minimum.

In my practice, I have made this election for several partnerships that take large guaranteed payments. It has saved them federal tax which were greater than my fee. However, I have not made this election for any of my rental partnerships or small S corporations. I just can't seem to justify the small savings for the extra fees the client would incur.

*Website:*

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

*or Call:*

**856.546.7201**

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For practitioners with POA on file to call about a specific client problem:  
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