2022-2023 TAX PLANNING GUIDE

Includes recent tax and legislative updates

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2022 Tax Planning Guide

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In addition to a year of war, political unrest, reliance on foreign oil, and Covid 19 mandate resistance, Americans are also facing high inflation for everyday goods, services and especially real estate. The prices of single-family homes in the most desirable locations have seen large increases. Inflation is the hidden tax that erodes wage increases and investment gains. In many respects inflation's percentage is difficult to determine and unpredictable because of huge government spending bills, "Supply Chain" shortages and distribution delays.

The FED is using its monetary powers to curb the upward price trajectory by either injecting substantial increases in interest rates. All increases, in interest rates will have a dampening effect on economic growth. A slowdown of growth makes it difficult for the Federal Government to continue to pass trillion dollar spending legislation that can only be paid for by taxing the middle-class.

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Tax Strategies for

Individuals and Families

THE CURRENT 2022 TAX CLIMATE

Introduction

Tax planning in 2022 is facing a myriad of challenges. Individuals and businesses have been seriously impacted by the Covid 19 Pandemic. As a result, Congress, under the Biden administration has passed trillions of dollars of legislation that has contributed to inflationary pressures not seen in the past 40 years. It is the uncertainty of the equity markets, soaring home prices, and energy expenses that have greatly impacted middle class America. As a result, it is noteworthy to say that developing, and periodically reviewing a tax and financial plan is more pertinent than ever before.

Even though the direction of the US economy is potentially headed towards a major recession, there are always financial opportunities available. Of course, assessing risk reward criteria is essential to maintaining a stable financial plan. In addition, understanding your penchant for assuming risk also requires solid evaluation.

It is important to also pay close attention to the interest rate hikes made by the Fed over the next few years. Chairman Jerome Powell indicated that the Fed will start raising interest rates as many as three to six times in 2022 and potentially four times in 2023. Each rate hike will possibly be .25 to .50 point per quarter.

The American Rescue Plan was signed into law by President Biden on March 11, 2021. This COVID-relief stimulus bill provided a third round of stimulus checks, extended unemployment benefits, funding for various public health and education programs, and expanded tax breaks for many families and small businesses. The tax changes are temporary, although there are a number of U.S. lawmakers pushing to make them permanent.

There continue to be seven tax brackets in 2022, (a change from five was made in 2018). For individuals the top tax rate of 37% applies to those with taxable income of $539,901 or more in 2022. Standard deduction for heads of household will increase $600 to $19,400 in 2022. Estates will have an exemption of $12,060,000 in 2022.

In 2022, the maximum amount workers can contribute to their 401(k) is up $1,000. The amount is $20,500 ($27,000 for workers over age 50 in 2022). IRA amounts also reamain the same at $6,000 ($7,000 for those over age 50).

Starting in 2019, the Affordable Care Act (ACA) individual mandate is repealed. There will no longer be a penalty payment on individual taxpayers who do not have health insurance.

For tax year 2022, there are a number of (mostly temporary) tax changes thanks to the American Rescue Plan Act (ARPA) of 2021. These provisions involve the Child Tax Credit, the Child and Dependent Care Credit, unemployment benefits, and more.

Given the changing nature of tax law and the complexity of our tax rules, planning is essential. We can help keep you informed of legislative action that may affect your tax situation and develop tax-efficient strategies for you.

2022 Tax Rates
10%
12%
22%
24%
32%
35%
37%

2022 INDIVIDUAL INCOME TAX RATES*

Married, Filing Jointly or Surviving Spouse

If Taxable Income Is Between:	Your Tax Is:	Of Amount Over:
$ 0 – $ 20,550	....................10%	$ 0
$ 20,551 – $ 83,550	$ 2,055 + 12%	$ 20,550
$ 83,551 – $ 178,150	$ 9,615 + 22%	$ 83,550
$ 178,151 – $ 340,100	$ 30,427 + 24%	$ 178,150
$ 340,101 – $ 431,900	$ 69,295 + 32%	$ 340,100
$ 431,901 – $ 647,850	$ 98,671 + 35%	$ 431,900
$ 647,851 and above	$174,254 + 37%	$ 647,850

Married, Filing Separately

If Taxable Income Is Between:	Your Tax Is:	Of Amount Over:
$ 0 – $ 10,275	....................10%	$ 0
$ 10,276 – $ 41,775	$ 1,028 + 12%	$ 10,275
$ 41,776 – $ 89,075	$ 4,808 + 22%	$ 41,775
$ 89,076 – $ 170,050	$ 15,214 + 24%	$ 89,075
$ 170,051 – $ 215,950	$ 34,648 + 32%	$ 170,050
$ 215,951 – $ 323,925	$ 49,336 + 35%	$ 215,950
$ 323,926 and above	$ 86,127 + 37%	$ 323,925

Single

If Taxable Income Is Between:	Your Tax Is:	Of Amount Over:
$ 0 – $ 10,275	....................10%	$ 0
$ 10,276 – $ 41,775	$ 1,028 + 12%	$ 10,275
$ 41,776 – $ 89,075	$ 4,808 + 22%	$ 41,775
$ 89,076 – $ 170,050	$ 15,214 + 24%	$ 89,075
$ 170,051 – $ 215,950	$ 34,648 + 32%	$ 170,050
$ 215,951– $ 539,900	$ 49,336 + 35%	$ 215,950
$ 539,901and above	$162,718 + 37%	$ 539,900

Head of Household

If Taxable Income Is Between:	Your Tax Is:	Of Amount Over:
$ 0 – $ 14,650	....................10%	$ 0
$ 14,651 – $ 55,900	$ 1,465 + 12%	$ 14,650
$ 55,901 – $ 89,050	$ 6,415 + 22%	$ 55,900
$ 89,051 – $ 170,050	$ 13,708 + 24%	$ 89,050
$ 170,051 – $ 215,950	$ 33,148 + 32%	$ 170,050
$ 215,951– $ 539,900	$ 47,836 + 35%	$ 215,950
$ 539,901and above	$162,219 + 37%	$ 539,900

The 2022 tax rate on qualified dividends is 0%, 15% or 20%, (plus a 3.8% Medicare Surtax on the 20% bracket) depending on your taxable income and filing status.

Note: TAX AMOUNTS HAVE BEEN ROUNDED UP

Tax Rate Reduction

Your filing status determines the tax rate schedule you use, and your annual income determines your tax rate. It can be helpful to think of tax rates as layers: Zero tax is paid on the bottom layer, 10% on the next layer, and so forth. The highest layer your income reaches is known as your marginal rate. The highest marginal tax rate for 2022 is 37%.

Alternative Minimum Tax (AMT)

Tax laws provide benefits for certain kinds of income and allow special deductions and credits for certain kinds of expenses. The alternative minimum tax (AMT) attempts to ensure that anyone who benefits from these tax advantages pays at least a minimum amount of tax. The AMT is a separate tax formula that eliminates many deductions and credits, thus increasing tax liability for an individual who would otherwise pay less. If your taxable income for regular tax purposes, plus any adjustments and preference items, is more than the AMT exemption amount, you must calculate tax using both the AMT and regular tax formulas and pay the higher of the two amounts.

The Tax Cuts and Jobs Act of 2017 increased the AMT exemption amounts and raised the phaseout thresholds. It also permanently indexed the exemptions for inflation. Today, the AMT will primarily effect high-income households, as it was originally intended. The following may increase your risk of triggering the AMT:

- High income
- Interest income from private activity bonds
- Large capital gain
- The exercising of Incentive Stock Options (ISOs)
- Claiming the standard deduction

Under the AMT, individuals are taxed at rates of 26% and 28% on the amount of taxable income above the exemption amounts. In 2022, the exemption amounts are $75,900 for single filers, $118,100 for married couples filing jointly, and $59,050 for married couples filing separately. Consult with us to determine if the AMT will affect you.

Tax Credits & Deductions

You can save money by taking advantage of every tax credit and deduction available to you. Credits provide a dollar-for-dollar reduction of your income tax liability; that is, a $1,000 tax credit actually saves you $1,000 in taxes.

Deductions, on the other hand, lower your taxable income. For example, if you are in the 22% tax bracket, a $1,000 deduction saves you $220 in tax, which is $780 less than the savings with a $1,000 tax credit. Let's take a look at some valuable credits and deductions.

Adoption Tax Credit

Those who adopt a child can receive a tax credit of up to $14,890 for qualified adoption expenses in 2022, subject to income limitations (see page 11). Those adopting a child with special needs may claim a $14,440 tax credit in the year the adoption is completed, even if they do not have qualified adoption expenses.

TAX TIP #1

Using the Standard Deduction for 2022 may be better than itemizing deductions. However, if you still itemize deductions be sure to keep detailed records.

Child Tax Credit - ARP Act Update

The American Rescue Plan (ARP) Act of 2021 temporarily expands the Child Tax Credit by allowing families to claim the credit regardless of their income level. It also increases the maximum amount of the credit to $3,600 for each child under age 6 and $3,000 for each child between ages 6 and 17. The 2022 child tax credit will revert back to $2,000 for each dependent age 17 or younger. Congress did not pass an extension of the enhanced benefit, nor an extension of the monthly payments.

Itemized Deductions For 2022

Because tax rates, deductions, and phaseouts are constantly changing, timing of income and expenses is critical. For most taxpayers, the general rule is *defer income* and *accelerate deductions.* You are allowed to take the standard deduction or to itemize your deductions on your tax return—whichever offers you the most benefit. However, the Tax Cuts and Jobs Act of 2017 eliminated or restricted many itemized deductions starting in 2018, and raised the standard deduction. This means that fewer taxpayers are likely to itemize.

The standard deductions for 2022 are as follows: $25,900 for married taxpayers filing jointly; $12,950 for single filers; $19,400 for head of household filers; and $12,950 for married taxpayers filing separately. There is an additional deduction for visually impaired or elderly taxpayers of $1,750 (if unmarried and not a surviving spouse) or $1,400 (if married).

If you still itemize your deductions, maintain detailed records. Consult with us throughout the year to monitor your income and plan your deductions.

Some itemized deductions—such as medical expenses—are based on "floor" amounts. Only amounts that exceed the given floor can be deducted.

Pease Limitation

The Tax Cuts and Jobs Act of 2017 suspended the Pease limit on itemized deductions for tax years beginning after December 31, 2017 and before January 1, 2026.

TAX TIP #2

This year the mileage rate on a per mile business deduction basis is 58.5 cents per mile. Remember to keep track of all miles driven for business purposes. You will need it if you face an audit.

Mileage Rates

You may deduct expenses for an automobile you own in one of two ways: either record and deduct your actual expenses, including depreciation, or record your mileage and deduct a standard amount per mile of travel, plus parking and toll fees. For 2022, the standard mileage rates are 58.5¢ per business mile driven, 18¢ per mile for medical or moving (moving is applicable for members of the U.S. Armed Forces or their spouse or dependents only) and 14¢ per mile for charity.

Medical Expenses

In 2022, all individuals may deduct unreimbursed qualified medical expenses that exceed 7.5% of their 2021 adjusted gross income. You may be able to maximize your deduction in spite of the limitation by "bunching" your discretionary medical expenses and procedures into one year.

Deductible medical expenses include health insurance premiums, fees for medical and dental services, prescription drug expenses, and other related expenses including capital improvements needed to your home for medical reasons (get a statement from your doctor); and cosmetic surgery that improves the body's functioning.

In general, prescription drugs are fully deductible. Note that Flexible Spending Accounts (FSAs), Health Saving Accounts (HSAs), and Health Reimbursement Arrangements (HRAs) cannot reimburse workers for unprescribed over-the-counter drugs. Only prescriptions and insulin are reimbursable.

Medicare Part B and D payments are deductible as medical expense deductions. Costs of physician-prescribed weight loss plans and prescriptions to treat obesity, or prescribed in connection with another malady, are deductible under the percentage-of-AGI rule. The cost of diagnosing (e.g., pregnancy test kits, electronic body scans, or annual physicals), preventing, or treating a specific disease may be deductible.

Refundable entry fees to continuing care facilities are not deductible, but a deduction is allowed for the medical related portion of non-refundable monthly fees. You may be able to deduct medical expenses you pay for a parent for whom you pay more than half the support, even if the parent lives separately.

Long-Term Care

Long-term-care insurance may be especially valuable in protecting a parent's home and other assets. You might buy the insurance for your parent and possibly deduct all or some of the cost. An insurance policy that covers the cost of care that may be needed later in life can be an important retirement and estate planning component. Tax laws allow you to deduct a portion of qualified long-term care insurance premiums based on your current age.

To get the best long-term care insurance rates, consider taking out a policy *now* to lock in current premiums for the entire coverage period. Compare policy premiums and coverage parameters, as insurance company programs vary.

Flexible Spending Accounts

Under current law, only medical expenses that exceed 7.5% of AGI are deductible on your tax return. Since many medical expenses are not covered by insurance plans, paying for them through a flexible spending account with tax-free dollars provides an opportunity for savings.

With a flexible spending account, certain medical expenses become, essentially, tax deductible. Covered expenses include insurance deductibles and copays, doctor's office visits, dental and orthodontia expenses, vision care, eye surgery, prescription drugs, and medical transportation costs.

Health Insurance Premiums for Self-Employed

If you are self-employed*, you may deduct 100% of your health insurance premiums as an above-the-line deduction. Whether you itemize or not, above-the-line deductions are subtracted from gross income to arrive at your AGI. The self-employed health insurance premiums deduction cannot exceed the amount of income you have earned from your business.

** Sole proprietors are self-employed. Partners in partnerships, members of limited liability companies (LLCs), and employee shareholders in S corporations may also be considered self-employed.*

Nonbusiness Taxes

State & Local Income Taxes. While state income taxes constitute a large chunk of nonbusiness taxes, there are ways to benefit:

TAX TIP #3

You may be able to deduct medical expenses that you pay for a parent so long as you pay more than half of their support regardless of whether they live with you or in their own home.

1. You may deduct your state and local income taxes on your Federal return up to a combined total of $10,000 in 2022 (including property taxes) if you itemize deductions.
2. If you pay the estimated state income taxes, (typically due on January 15) by December 31, you will gain a larger Federal deduction for the current year.

NOTE: If you are subject to the alternative minimum tax (AMT) this year, you may not benefit from nonbusiness tax deductions because you cannot deduct state/local taxes for AMT purposes. Please consult with us before prepaying any taxes.

If you do not make estimated tax payments, you may want to ask your employer to withhold more state tax during the year, which can increase your deduction. If you overpay, intentionally or not, the IRS will tax any refund you receive from the state up to the amount of the benefit from your Federal deduction in the prior year.

Property Taxes. Property owners must pay personal property taxes on the value of their property. While property taxes can be burdensome, they *are* deductible up to a combined total of $10,000 (including state and local income taxes) on your Federal tax return. While paying property taxes before December 31 could give you a greater deduction in the current year, be aware of any AMT implications.

Real estate taxes are deductible. However, registration, licensing, and other fees are not deductible. Special real estate assessments are also not deductible because you derive specific benefits from them.

TAX TIP #4

Student loan interest is tax deductible up to $2,500 on student loans incurred during the year. Be sure to checkout the "Phaseout" rules (Page 11) based on your annual income.

2022 Interest Expenses

All interest paid on qualified residential mortgages that do not exceed $750,000 (including points paid to obtain a mortgage), interest on home equity loans (as long as they are used to buy, build or substantially improve the taxpayer's home that secures the loan), and business debt is tax-deductible based on a formula under the Tax Cuts and Jobs Act of 2017. With certain limitations, you may also deduct interest on loans used for investment purposes. Interest expenses related to certain passive activities (trade or business activities in which you do not materially participate) may be deductible, as well. You are allowed to deduct these interest expenses as long as they are paid during the tax year on a valid debt. Remember, you cannot deduct interest paid on credit cards or loans for consumer items, such as appliances and cars, nor can you deduct interest paid on a loan used to purchase tax-exempt securities.

Student Loan Interest. Up to $2,500 of interest on student loans incurred during the year may be deducted. Since this is an "above-the-line" deduction, even non-itemizing taxpayers benefit. The loans must be used for qualified higher education expenses, such as tuition, fees, room, board, and books. If you are in a higher tax bracket, you may not be eligible for this deduction because of the phaseout rules. For more information, see the chart on page 11.

Charitable Contributions

The primary motivation to donate to charity should be altruism. However, great tax benefits exist for those who give. Here are some of the rules and benefits you should know about.

A gift to a qualified charitable organization may entitle you to a charitable contribution deduction against your income tax if you itemize deductions. You must itemize in order to take a charitable deduction. Make sure that if you itemize, your total deductions are greater than the standard deduction. If they're not, stick with the standard deduction.

A contribution is deductible in the year in which it is paid. Putting the check in the mail to the charity constitutes payment. A contribution made on a credit card is deductible in the year it is charged to your credit card, even if payment to the credit card company is made in a later year.

Most, but not all, charitable organizations qualify for a charitable contribution deduction. You can deduct contributions only if they are made to or for the use of a qualified recipient. No charitable contribution deduction is allowed for gifts to certain other kinds of organizations, even if those organizations are exempt from income tax. Contributions to individuals, foreign governments, foreign charities, and certain private foundations similarly are not deductible. All organizations rated by Charity Navigator qualify for charitable status, and you can deduct your donations to these organizations, subject to certain limitations.

Charitable organization deductions. Refer to this update from the Internal Revenue Service.

Rules exist for non-cash donations. If you contribute property owned for more than one year, the value of the deduction is normally equal to the property's fair market value. You have an advantage when you contribute appreciated property because you get a deduction for the full fair-market value of the property. You are not taxed on any of the appreciation, so, in effect, you receive a deduction for an amount that you never reported as income.

You should clearly contribute, rather than throw out, old clothes, furniture, and equipment that you no longer use. However, bear in mind the condition of your donated goods. The IRS only permits deductions for donations of clothing and household items that are in "good condition or better."

If you bring $1,000 in clothes or furniture to Goodwill or the Salvation Army, make sure that you get a receipt. Never throw

such contributions into a bin where no receipt is available. And remember that the IRS requires a qualified appraisal to be submitted with your tax return if you donate any single clothing or household item that is not in good used condition or better. Refer to the Internal Revenue Service: Publication 526, Charitable Contributions and Publication 561, Determining the Value of Donated Property

You need to maintain proper documentation of your contributions. If you want to claim a charitable deduction for a cash gift, then you must be prepared to verify your claim. In other words, you cannot deduct the spare change dropped in a charity's collection bucket without the proper documentation. If you are audited, the IRS will only accept one of the following to substantiate a monetary gift: a canceled check, credit card statement, bank statement or a written acknowledgment from the charity. Donating online via Charity Navigator's Giving Basket helps you fulfill this requirement since all your giving records will be stored in one place enabling you to quickly obtain an annual record of your charitable giving for tax preparation.

If you contribute $250 or more, then you must prove to the IRS that you (a) made the donation and (b) you didn't receive anything in return for that donation. Therefore you'll need a receipt from the charity that includes the following information: the charity's name, the value of your gift, the date you made your donation and a statement verifying that you did not receive any goods or services in return for your gift.

Be especially careful when valuing a donated vehicle. Although a law implemented in 2005 attempted to crack down on taxpayers who were overvaluing donated vehicles, the government reports that many taxpayers still inflate the value of such donations. As a result, the IRS continues to take a close look at such deductions. If you donated a car worth more than $500, then you can only deduct the amount the charity received from the sale of your car. You can use the receipt from the charity to substantiate your claim. Do not attempt to use the fair market value unless one of the following conditions apply: (1) instead of selling the vehicle, the charity keeps and uses it, (2) the charity makes improvements to the car before selling it, (3) your car is sold at a discounted price to a person with a low income, (4) or if the car is worth less than $500.

The IRA charitable rollover offers tax benefits for those that qualify. The IRA Charitable Rollover allows individuals who are 70 1/2 years old to donate up to $100,000 to charitable organizations directly from their IRA, without that donation being counted as taxable income when it is withdrawn. To qualify, contributions must come from a traditional IRA or Roth IRA, and they must be made directly to a qualified charitable organization. Additionally, the donor may not receive goods or services in exchange for the donation, and they must retain a receipt from each charity to which a donation is made.

Casualty Losses

The Tax Cuts and Jobs Act of 2017 applied new limits to an individual's ability to deduct personal casualty and theft losses. For tax years 2018 through 2025, taxpayers cannot deduct personal casualty and theft losses unless the casualty losses are incurred in a Federally declared disaster. If a taxpayer suffers a loss in a declared disaster, they will be able to claim the loss as an itemized deduction, subject to the $100 floor. The balance is deductible to the extent it exceeds 10% of AGI. (If you have more than one loss event for the year, the balances above $100 for each are totaled and the excess above 10% of AGI is deductible.) Repair costs due to corrosive drywall are eligible as a casualty loss in the year of payment, but slow damage, as from rust or insects, is not. Gain on insurance proceeds for personal property lost in a declared disaster is not taxed. You can take a 2022 declared-disaster loss on your 2022 or (amended) 2021 return; choose the year of lower AGI.

Insurance reimbursements for living expenses are taxable to the extent they exceed actual expenses in the year the owner receives the funds or moves back into the house, whichever is later. Insurance payments are also taxed for a destroyed house that are not spent to replace the house within two years (four years in disaster areas); and for items listed in separate schedules of the policy and not reinvested in the house or similar items.

Compensation

You can convert compensation to a tax-advantaged form, such as no-extra-cost-to-the-employer services (e.g., free standby flights for airline employees), working-condition fringe benefits, employee discounts, or de minimis fringe benefits.

Some types of noncash compensation are taxable—e.g., employer-provided automobile for personal use or employer aid for education not directly job-related or job-required. Also, stock options: the difference between the stock's fair market value and the option price is "income" when the option is exercised, but a special rule delays the tax on incentive stock options (ISOs) until the stock is sold or exchanged. Even ordinary stock options let you speculate on the stock, while ISOs benefit from the low rate on capital gain. Certain conditions must be met to receive favorable tax treatment on ISOs. If you receive restricted stock or options from your employer or exercise ISOs, consider making a Section 83(b) election within 30 days. With respect to stock, the election lets you use long-term capital gains rates on the difference between the sales price and your basis when you sell the stock; with respect to ISOs, it lets you pay lower AMT. Firms must report to the IRS ISOs exercised in 2022 as well as employee stock purchase plans.

TAX TIP #5

Because of past inflated deductions the IRS is taking a very hard look at vehicle charitable contributions. If the donated vehicle deduction is more than $500 your deduction will be the amount that the charity receives at the time of sale.

Severance pay is fully taxable and severance paid to employees laid off as part of a reduction in workforce is subject to payroll taxes. An ex-employer's continued payment of health and accident benefits is not taxable. An ex-employee who pays his or her own COBRA health premiums can deduct them to the extent they and other medical expenses exceed 10% of AGI. Outplacement services are no longer a tax-free benefit under the Tax Cuts and Jobs Act of 2017 because miscellaneous deductions which exceed 2% of your AGI are eliminated from 2018–2025, and this includes job search expenses. State unemployment benefits continue to be taxable.

TAX TIP #6

One benefit provided to students who are full-time degree candidates, is that any scholarship money received is not included in their annual income for tax purposes.

Investment Expenses

To encourage taxpayers to invest, tax laws allow a deduction for interest on loans used to purchase a taxable investment. You can deduct all of your interest, up to the total of your net investment income. Qualified dividend income and net capital gains from the disposition of investment property are not considered investment income. However, you may elect to treat qualified dividends and net capital gains as investment income by subjecting them to ordinary income tax rates.

Under the Tax Cuts and Jobs Act of 2017, you can no longer deduct ordinary and necessary investment expenses as miscellaneous itemized deductions, subject to the 2% floor. Under prior law, brokers' and mutual fund commissions were generally deducted by adding them to the basis to reduce capital gain upon sale.

Professional Fees

Under the Tax Cuts and Jobs Act of 2017, many itemized deductions have been eliminated or modified. Tax preparation fees filed as a miscellaneous itemized deduction subject to the 2% floor is fully eliminated.

Under prior law, generally, you could not deduct personal legal expenses, such as the expense of acquiring, perfecting, or defending your title to property. However, these costs could qualify as capital expenditures, which were added to the basis of the property. Expenses related to tax-free income are not deductible.

Divorce-Related Fees. Under new tax law, many taxpayers lose the benefit of deducting legal fees for divorce as itemized deductions due to new limitations. Taxpayers who claim the standard deduction in 2022 instead of itemizing will not be able to deduct legal fees.

TAX TIP #7

Setting-up a 529 college savings plan has its tax benefits. Contributions made to a 529 plan accumulate tax free and withdrawals for qualified educational expenses are also tax free.

EDUCATION STRATEGIES

There are several strategies for those saving for a child's education, such as 529 plans, Coverdell Education Savings Accounts (ESAs), and education tax credits. Navigating the different options and the temporary nature of some opportunities, however, can be challenging. Let's take a look at the rules governing tax breaks for education.

Other Education Related Tax Benefits

Those who have student loans forgiven may not have to pay tax on the waived debt if they work in public service jobs or teach in schools in low-income areas for 120 months, and make regular loan payments during that time. This rule applies to loans first made by the government or by private lenders that are later consolidated into Federal loans. Information on Federal loan forgiveness programs can be found at studentaid.ed.gov.

Tax Benefit	Maximum Benefit	Qualified Expenses	2022 Income Phaseouts	Notes
Student Loan Interest Deduction	$2,500 above-the-line deduction	Student loan interest	Single and Head of Household $70,000–$85,000 Married, Filing Jointly $145,000–$175,000	Person obligated to make loan payment must be/have been at least half-time student in degree program
Employer Tuition Assistance	$5,250 exclusion from income per student	Tuition, fees, books, supplies, equipment	None	
Scholarships	Excluded from income	Tuition, fees, books, supplies, equipment	None	Student must be degree candidate

529 Plans

These qualified tuition programs, offered as prepaid tuition plans or college savings plans, are valuable tools to help finance your children's education. Prepaid tuition programs allow you to lock in today's tuition rates at participating private and public colleges and universities. College savings plans, on the other hand, offer a range of investment options, typically a variety of mutual funds, which can be used to pay for tuition and other qualified education expenses at many colleges and universities nationwide.

In 2022, up to $10,000 of 529 funds per year can be used for qualified K-12 tuition expenses. Taxpayers can also rollover amounts from 529 plans into ABLE accounts. Under the Setting Every Community Up for Retirement Enhancement (SECURE) Act, up to $10,000 can be used to pay down the account beneficiary's student loans and another $10,000 can be used to repay student loans held by their sibling. The law also allows 529 funds to be used for apprenticeships that are registered with the Federal Labor Department.

While state tax benefits for 529 plans vary, all 529 plans offer Federal tax benefits. Earnings grow tax-free and funds withdrawn to pay for qualified educational expenses, including the cost of computer equipment and Internet access, are also tax-free.

With a 529 plan, you are allowed a tax-free rollover once a year. This permits same-beneficiary transfers to another qualified tuition program. Rollovers to a different beneficiary may occur at any time, but some plans may charge a fee. You may use 529 plans in conjunction with other tax breaks. For example, you may claim the American Opportunity Tax Credit or Lifetime Learning Credit in the same year you make withdrawals from a 529 plan, as long as the same education expense is not used for both the education credit and the tax-free 529 withdrawal.

In addition, you may contribute to both a 529 plan and a Coverdell Education Savings Account (ESA) on behalf of the same beneficiary in the same year. As 529s have become more popular, many plan options have emerged. Each type of plan has its own rules and investment options. There are certain pros and cons associated with 529s, for example 529 plans may not be the best choice for low- and middle-income taxpayers who qualify for financial aid because 529 assets are considered when determining need for financial aid; you will be taxed and penalized on the earnings portion of any withdrawals if funds are not used for qualified education expenses; savings plans invested in stocks may lose money, so it may be wise to switch funds into less volatile investments as the beneficiary gets closer to college-age; you may not benefit from additional state tax breaks unless a plan is set up in your state of residence; and some states have residency requirements for establishing an account.

Contributions to a 529 plan on behalf of a beneficiary are considered a gift for gift tax purposes, and in 2022, up to $16,000 ($32,000 for joint filers) may be given tax free. Furthermore, a special gift tax rule allows individuals to make a tax-free, lump-sum contribution to a 529 plan of up to $85,800 -$100,800($145,000-$175,00 for joint filers) in 2022; however, you are unable to make tax-free gifts on behalf of the same beneficiary for the next five years.

Coverdell Education Savings Accounts

You can use the Coverdell Education Savings Account (ESA) to help pay for your child's elementary and secondary school expenses, as well as college expenses. The annual contribution limit is $2,000, but keep in mind that income limits apply. (Refer to the chart on page 11.) You have until the April tax filing deadline in 2023 to make contributions for 2022. Grandparents and other family members may also make contributions for your children, as can corporations and other entities. There is no limit to the number of accounts that can be held in a child's name or the number of people who may make contributions to a Coverdell ESA—as long as total contributions remain within the $2,000 annual limit per child.

Funds withdrawn from an ESA (both contributions and earnings) are tax free if used to pay for qualified expenses. However, tax-free distributions are not allowed if an education tax credit is used for the same expenses for the same student. The beneficiary must use ESA funds by age 30. If not, the account may be transferred to a relative.

TAX TIP #8

Employer student tuition assistance is excluded from the employee's annual income (with no "Phaseout" rules) to a maximum of $5,250 per year.

Education Bonds

Education Bonds offer tax-free interest on Series EE bonds issued after December 31, 1989, and all Series I bonds. Tuition and fees are qualified expenses. You can rollover an education bond into a 529 Plan or Coverdell ESA. Income phaseouts for 2022 are $85,800-$100,800 for single and head of household filers and $128,650–$150,650 for married filing jointly. Some important notes: income limits apply when bonds are cashed; bonds must be in the parent's name; the child must be the beneficiary, not co-owner; and the purchaser must be age 24 or older.

Education Tax Credits

If you are currently paying higher education expenses, two Federal tax credits may help lessen your tax bill: the American Opportunity Tax Credit and the Lifetime Learning Credit.

The American Opportunity Tax Credit is worth $2,500 in 2022. It is now available for all four years of college, and it can be used to cover the cost of course materials. Income phaseout levels for the credit begin at $160,000 of modified AGI for joint filers and $80,000 of modified AGI for single filers in 2022. In addition, 40% of the credit is refundable, which could enable lower-income taxpayers to get money back from the IRS.

The Lifetime Learning Credit, which applies to undergraduate study, as well as graduate and professional education pursuits, could be worth up to $2,000. The Consolidated Appropriations Act (CAA) of 2021 changed the Lifetime Learning Credit by aligning its income phase out rule with the American Opportunity Tax Credit. For 2022, eligibility begins phasing out for joint filers with modified AGI above $160,000 ($80,000 for single filers). If a student qualifies for both credits in the same year, you may claim either credit, but not both.

If you cannot claim either credit because your income is too high, your child can take the full credit if he or she has sufficient taxable income. However, you will not be able to claim a dependency exemption for the child. Your savings, therefore, will be the amount of the credit less the tax benefit of the lost dependency exemption. But, be aware that, based on your income, the exemption may be reduced.

Other Education Benefits

- See chart on page 7.
- You can withdraw from your IRA to pay qualified higher education expenses without being penalized. The amount withdrawn will be subject to taxation, however.

Financial Aid

Most colleges use Federal guidelines to determine the need-based aid for which your child may be eligible. (Criteria for colleges that use their own formulas may vary from what is discussed here.) Several factors determine the amount of the aid: the "cost of attendance" for the college in question; the money provided from outside sources (such as scholarships or tuition paid directly by a relative); and the "expected family contribution" (EFC). The information you provide each year on the Free Application for Federal Student Aid (FAFSA) is used to calculate your EFC. The college then uses that figure to calculate the amount of Federal student aid you are eligible to receive through loans, grants, and/or work-study programs.

> **TAX TIP #9**
>
> Being self-employed has its benefits. However, if you are self-employed or have sources of income separate from you regular job, you must make quarterly tax payments.

The EFC formula considers several financial pools: 2.5%–5.64% of the parents' assets and 22%–47% of the parents' income (minus certain allowances for both); 20% of the student's assets; 50% of the student's income (minus certain allowances). If you have multiple children in college at the same time, this is taken into consideration. Some assets, such as retirement accounts and home equity, are not included in the financial pool. 529 account balances may be included in parents' assets but tax-free distributions from a 529 plan are not included in parents' income. If you have a child going to college in 2022-2023, your assessment for aid will be based on your 2021 tax return. Consider minimizing your earned income, fully funding your retirement accounts, accelerating investment losses, and adjusting investments to hold down interest and dividend income.

ESTIMATED TAX PAYMENTS

Income tax is considered a pay-as-you-go tax, which means that tax must be paid as you earn or receive income during the year. You can either do this through withholding or by making estimated tax payments. Therefore, if you are self-employed or have additional sources of income outside of your regular job, you may be required to pay your Federal taxes four times annually.

To avoid penalties, make estimated payments in four installments equal to 90% of your 2021 tax liability or 100% of what you paid in 2020. If the AGI on your prior year's return was more than $150,000 ($75,000 if married filing separately), the percentage requirement increases to 110% of 2020 tax or 90% of 2021 tax, whichever is lower. The minimum threshold for paying estimated tax remains at $1,000 for 2022.

HEALTH INSURANCE

Supplementary Medical Insurance Trust Fund

This trust is largely funded by the premiums paid by people enrolled in Medicare Part B (medical insurance) and Medicare Part D (Medicare prescription drug plans), but it is also funded by:

- Interest earned on the trust fund investments
- Funds authorized by Congress

The Supplementary Medical Insurance Trust Fund pays for:

- Medicare Part B benefits
- Medicare Part D prescription drug coverage
- Medicare Program administration costs

Medicare taxes and the Affordable Care Act

The Affordable Care Act (ACA) was passed in 2010 to help make health insurance available to more Americans. To aid in this effort, the ACA added an additional Medicare tax for high income earners. This raised the tax from 1.45 percent to 2.34 percent for people with an earned annual income of more than $200,000 ($250,000 for married couples filing jointly).The additional tax (0.9% in 2022) is the sole responsibility of the employee and is not split between the employee and employer.

If you make more than $200,000 per year in 2022 as an

individual filer, the 0.9 percent surtax only applies to the amount you make that is over $200,000. For instance, if you make $300,000 per year, you and your employer each pay the standard 1.45 percent Medicare tax for the first $200,000 you make, and you pay the additional 0.9 percent Medicare tax on the $100,000 that is left.

Medicare taxes for the self-employed

Even if you are self-employed, the 2.9% Medicare tax applies.

Typically, people who are self-employed pay a self-employment tax of 15.3% total – which includes the 2.9% Medicare tax – on the first $142,800 of net income in 2022.

The self-employed tax consists of two parts:

- 12.4% for Social Security
- 2.9% for Medicare

You can deduct the employer-equivalent portion of your self-employment tax in figuring your adjusted gross income. If you're unsure of how to do this, a tax professional may be able to help.

JOB HUNTING

In December 2017, with the passing of the Tax Cuts and Jobs Act, many deductions including the option to deduct job search expenses were suspended or eliminated from 2018 to 2025. Also, as part of the 2017 tax law, taxpayers will not be able to deduct moving expenses starting in 2018 through 2025. An exception is that taxpayers who are members of the military on active duty who move as part of an order can deduct certain costs of getting themselves, their family, and goods to the new area, and this includes parking fees, tolls, and 16¢ per mile.

TAXES FOR DOMESTIC HELP

For example in 2022, you hire a household employee (who is an unrelated individual over age 18) to care for your child and agree to pay cash wages of $100 every Friday. You expect to pay your employee $2,400 or more for the year. You decide to pay your employee's share of social security and Medicare taxes from your own funds. You pay your employee $100 every Friday without withholding any social security or Medicare taxes.

For social security and Medicare tax purposes, your employee's wages each payday are $100. For each wage payment, you will pay $15.30 when you pay the taxes. This is $7.65 ($6.20 for social security tax plus $1.45 for Medicare tax) to cover your employee's share plus $7.65 ($6.20 for social security tax plus $1.45 for Medicare tax) for your share. For income tax purposes, your employee's wages each payday are $107.65 ($100 + the $7.65 you will pay to cover your employee's share of social security and Medicare taxes).

CHANGES TO EXEMPTIONS

In 2018, the Tax Cuts and Jobs Act eliminated the deduction for personal and dependent exemptions. The tax law increased the standard deduction amounts. In 2022, the deduction amounts are $25,900 for married filing jointly, $12,950 for single filers, and $19,400 for heads of households, indexed for inflation. These changes expire at the end of 2025 unless Congress takes further action.

SUPPORTING YOUR PARENTS

Growing numbers of Baby Boomers are supporting their parents. If you are among this group, you may qualify for some valuable tax breaks.

As part of the recent law eliminating dependent exemptions for 2018 through 2025, taxpayers will no longer be able to claim their parent as a dependent. However, the Tax Cuts and Jobs Act does allow for a new $500 nonrefundable credit for dependents who do not qualify for the Child Tax Credit. Taxpayers can claim this for non-child dependents and children who are too old for the Child Tax Credit.

If you are single and a parent qualifies as your dependent, you may be able to file as "head of household" and receive the lower marginal tax rates and larger standard deduction of that filing status. You must pay more than 50% of the cost of maintaining the household in which your parent resides; however, you do not need to live in the same house.

If you pay qualified expenses for a parent who is physically or mentally incapable of self-care and you live in the same house, you may be able to claim a dependent care credit. To qualify, the care must be necessary in order for you to hold gainful employment, though the care can be received either inside or outside the home.

For most taxpayers, the dependent care credit is limited to 50% of the first $8,000 ($16,000 for two or more qualifying dependents) of eligible expenses. Note that this is an increase from the usual 35% limit of the first $3,000 of expenses, thanks to the American Rescue Plan (ARP) Act of 2021. If you provide more than half of your parents support for the year, you may also deduct medical expenses paid on behalf of your parents, even if they do not qualify as your dependents.

CHILDREN'S TAXES

Congress has provided many favorable tax breaks to individuals in recent years. The "kiddie tax" is unearned income over $2,300 for children under age 18 (age 19 if the child does not provide more than one half his/her own support or age 24 for full-time students) is taxed at rates that apply to trusts and estates, not the parents' top rates as it has in years past.

In 2022, children owe no taxes on the first $1,150 of unearned income and are taxed at their own rate on the next $1,100. Original law applied the kiddie tax to children under age 14. This permitted children 14 and older to file their own

TAX TIP #10

Encouraging children to save and invest through an IRA is an excellent education in financial responsibility. Saving money earned from babysitting and/or a summer job can grow into a significant sum.

returns, allowing their taxable investment income, such as dividends and interest, to be taxed at rates most likely lower than their parents' top rates.

Even with the increase in age, there are steps you can take to plan around the kiddie tax. To avoid paying the higher rate, consider the following:

- Shift the child's investments to tax-free securities or growth stocks (which do not pay dividends) that defer taxes until the child is old enough to avoid the kiddie tax.
- Divide the child's income with a special trust. Only undistributed income is taxed to the trust; distributed income is taxed to the child. At age 21, or when the child satisfies the terms of the trust, the child will receive the principal and accumulated earnings. Be sure to contact us at that time because there may be tax consequences.

The Kiddie Tax went through changes as part of the Tax Cuts and Jobs Act of 2017 and has recently changed again as part of the SECURE Act passed in December 2019. Under the SECURE Act, some of the provisions were shifted back to pre-2017 law. Currently, unearned income over $2,300 for children under age 18 (age 19 if the child does not provide more than one half his/her own support or age 24 for full-time students) is

taxed at the parents' marginal tax rate, not the rates that apply to trusts and estates as it did in 2018 unless you file an amended return for that year. For 2022 filings, taxpayers will choose which rate approach to use depending on their situation. The rates in 2022 are: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

IRAs FOR KIDS

If your child has earned income from outside the household, such as from a summer job or babysitting, consider opening an Individual Retirement Account (IRA). For 2022, your child can contribute $6,000 (or his or her earned income, whichever is less) to an IRA.

Just how important is it to start an IRA for your child *now*? Suppose your 15-year-old daughter saves $800 from

2022 Income Tax Phaseout Ranges

Provision	Single	Married Filing Jointly
Child Tax Credit[1]	Starts at $200,000-$240,000 AGI[2]	Starts at $400,000 AGI[2]
Adoption Credit	$223,410 – $263,410 AGI	Same as single
Interest on Education Loans	$70,000 – $85,000 AGI	$145,000 – $175,000 AGI
Education Credits a) American Opportunity Tax Credit b) Lifetime Learning Credit	 Starts at $80,000-$90,000 AGI Starts at $80,000 AGI	 Starts at $160,000-$180,000 AGI Starts at $160,000 AGI
Coverdell Education Savings Accounts	$95,000 – $110,000 AGI	$190,000 – $220,000 AGI
Education Savings Bonds	$85,800 – $100,800 AGI	$128,650 – $158,650 AGI
Individual Retirement Accounts (IRAs) a) Active participant in another plan b) Not an active plan participant	 $68,000 – $78,000 AGI No limitations apply	 $109,000 – $129,000 AGI[3] $204,000 – $214,000 AGI[4]
Contributory Roth IRAs	$129,000 – $144,000 AGI	$204,000 – $214,000 AGI

[1] The credit is reduced by $50 for each $1,000, or fraction thereof, of AGI above the threshold.
[2] AGI is adjusted gross income. Different modifications may apply depending on specific provisions.
[3] Applies when both spouses are active plan participants or only the participant spouse contributes.
[4] Applies if at least one spouse is not an active participant.

babysitting and purchases a Roth IRA. If she makes no additional contributions and the funds grow 8% annually, she will have accumulated more than $37,000 by age 65, which will be tax free upon withdrawal. Or, suppose she opens a Roth IRA with $2,000 at age 15 and then makes annual contributions of $2,000 for the next 10 years. The value of her tax-free account at age 65 will be about $700,000 if the annual growth rate is 8%.

NOTE: The previous hypothetical examples are for illustrative purposes only. They are not intended to reflect an actual security's performance. Investments involve risk and may result in a profit or a loss. Seeking higher rates of return involves higher risks.

TAXES & DIVORCE

Under new tax law, many taxpayers lose the benefit of deducting legal fees for divorce as itemized deductions due to new limitations. Taxpayers who claim the standard deduction in 2022 instead of itemizing will not be able to deduct legal fees.

Divorce and its associated tax issues can be complex. In many cases, neither spouse can file as single until the divorce is final. A joint return generally offers the lowest tax bracket, but each spouse is then responsible for the other's tax liability. The "innocent spouse" provisions of the tax law offer some protection to spouses who do not know about certain income and some relief from responsibility for the other's taxes.

One way for divorcing couples to avoid responsibility for the other's tax liability is to choose the married filing separately status. However, tax rates are generally higher, several potential credits may be lost, and if one spouse itemizes, both must do so.

Couples with children who lived apart during the last six months of the tax year have another option. The spouse paying the majority of household costs for a home that was also the children's home for more than half the year can file as head of household, which offers several additional credits over married filing separately and lowers certain marginal tax rates. Furthermore, the standard deduction for head of household filers is higher than the standard deduction for married filing separately or single filers.

The custodial parent is entitled to the new $500 nonrefundable credit for dependents who do not qualify for the Child Tax Credit since the dependency exemption for each child has been repealed under the Tax Cuts and Jobs Act of 2017, through 2025.

Qualified Domestic Relations Orders

During divorce, retirement and pension funds, such as those in 401(k) plans, may need to be divided. Early withdrawals from these accounts may incur penalties unless a Qualified Domestic Relations Order (QDRO) is obtained.* The QDRO directs a retirement fund's administrator to pay a specific amount to a former spouse or child. The former spouse may defer tax on the payments by rolling them into an IRA within 60 days of receipt. Payments made to a child are taxed to the plan participant.

** The exception to the early withdrawal penalty only applies to 401(k)s and other qualified plans. An early withdrawal from an IRA would still be subject to penalty.*

Property Transfers

The basis of property transferred in a divorce proceeding carries over from one spouse to the other. Therefore, it is important to consider not only the value of property received, but also its tax basis. The recipient of appreciated property may owe tax on its inherent appreciation when it is later sold. This future liability can be recognized, quantified, and properly reflected in the divorce settlement.

Gift tax consequences can be avoided if the transfers are made under the terms of a qualifying written agreement between spouses.

Child Support & Alimony

The Tax Cuts and Jobs Act of 2017 eliminated deductions for alimony payments required by divorce agreements executed after December 31, 2018. Recipients of affected alimony payments will no longer have to include them in taxable income.

TAX TIP #11

Divorcing spouses should consider the married filing separately option. This offers each one the ability to be free of the others tax liability.

TAX STRATEGIES FOR HOMEOWNERS

To make the most of your opportunities, contact us with any questions regarding deductions for your home.

Home Offices

If you operate a business out of your home, you may qualify for a home office deduction. However, because of the Tax Cuts and Jobs Act of 2017, even fewer taxpayers than in years past will be eligible for this deduction. Home office expenses for employees of companies are considered a miscellaneous itemized deduction. Under the law from 2018-2025, company employees who work from home will not be able to deduct any home office expenses. If you are self-employed, however, you can deduct eligible home office expenses against your self-employment income.

There are eligibility requirements for the deduction. If you are self-employed, generally your home office must be your principal place of business, though there are exceptions. Any personal use of the area makes you ineligible for the deduction. The space must be used regularly and exclusively for business purposes.

If you meet these requirements, you have two options for the deduction: You may deduct a portion of your homeowners insurance, home repairs, mortgage interest, property taxes, utilities and certain other expenses equal to the percentage of the space the office occupies. Or, you can take the "safe harbor" deduction with one calculation: $5 x the number of square feet of the office space. This is capped at $1,500 per year, based on a maximum of 300 square feet.

Home-Buying Fees

When buying and selling real estate, keep in mind the rules for deducting certain expenses. Homebuyers face two major fees: closing costs and points. Closing costs are generally not deductible, but they add to the cost basis of the home, reducing the gain when the house is sold.

Points, on the other hand, may be fully deducted in the year they are paid, if the following conditions are met:

- The loan is secured by your home.
- The loan is for the purchase or improvement of the primary home.
- The points are for the use of money (not a service charge).

If the purpose of the loan is not to acquire or improve your principal residence but the other two conditions are met, you can still deduct the points in monthly increments over the life of the loan. If the mortgage ends early because of prepayment or refinancing, you may deduct the remaining, or unamortized, points at that time.

When refinancing, points paid on a loan to improve the principal residence may be deducted immediately. If you are refinancing to improve your interest rate, the points are deductible over the life of the loan. Points paid by the seller are also deductible by the buyer.

Home Equity Loans

The Tax Cuts and Jobs Act of 2017 suspends from 2018 to 2025 the deduction for interest paid on home equity loans and lines of credit, unless they are used to buy, build or substantially improve the taxpayer's home that secures the loan. Under the

TAX TIP #12

If you are refinancing your home because of renovations and/or improvements, points paid are deductible immediately.

new law, for example, interest on a home equity loan used to build an addition to an existing home is typically deductible, while interest on the same loan used to pay personal living expenses is not. As under prior law, the loan must be secured by the taxpayer's main home or second home, not exceed the cost of the home and meet other requirements.

Second-Home Deductions

Your cabin by the lake may provide you with more than rest and relaxation—it could also be a valuable source of deductions. For tax purposes, a qualified second home must have a place to sleep, a toilet, and cooking facilities, whether it be a condominium, recreational vehicle, boat, etc.

You may be able to deduct interest on a loan for a second home, provided your primary and secondary mortgages do not total more than $750,000 (or $375,000 if married filing separately). If you rent out the second home, you must use it personally for more than 14 days or for more than 10% of the rental days, whichever is greater, for it to qualify as a personal residence. In addition to mortgage interest, you may be able to deduct property taxes and prorated monthly portions of your points paid over the life of the loan.

If you rent the home for more than 14 days per year and it qualifies as a personal residence, you can also deduct the appropriate portion of upkeep, insurance, utilities, and similar costs to offset rental income. The property may be depreciated, which can help reduce your rental income without expending cash. As long as you use the place yourself for less than 14 days or 10% of the rental days, it is considered rental property, and you can claim a rental loss (subject to certain limitations).

Selling Your Home

Losses from home sales cannot be deducted. Business or rental property is subject to different rules. You can take extra deductions by staying in the home and converting part of it for business or rental use. When you sell your home, you can claim

TAX TIP #13

If you are inclined to buy an electric vehicle, check to see if the manufacturer has reached the 200,000-production limit. If the manufacturer has, then you may be unable to claim the $7,500 tax credit.

a business loss if the property declines in value below its current tax basis, but only on the portion of property that is actually used for business or rental purposes.

Married couples can exclude up to $500,000 of gain when they sell their home ($250,000 for singles). The home must have been the principal residence for at least two of the last five years. Homeowners can receive a portion of the exclusion based on how long they lived in the home, as long as the sale is due to a change in place of employment or health, or unforeseen circumstances. The exclusion can be used once every two years and at any age.

More Tax Saving Strategies
FOR FAMILIES AND INDIVIDUALS

- Lower your taxable income by shifting income to other family members. However, watch out for the kiddie tax.
- Calculate the value of the tax benefits to see who should claim education deductions and/or credits—you or your child.
- Consider your plans for the near future. How will marriage, divorce, a new child, retirement, or other events affect your year-end tax planning?
- Take maximum advantage of your employer's Section 125 flexible spending account, 401(k) plan, health savings account (HSA), and health reimbursement arrangement (HRA).
- For tax purposes, a deductible purchase is considered "paid" when charged. If you need the deductions this year but do not have the cash, consider charging contributions, medical expenses, business expenses, and some state tax payments. Just remember to pay them off quickly to avoid increasing debt.

MANAGING RECEIPT OF INCOME

When considering how to best manage your taxes, keep in mind that deductions are only part of the story. Income must also be considered. For example, if you expect to be in a higher income tax bracket next year, it may be a good idea to accelerate income into the current year. If, on the other hand, you expect to be in a lower tax bracket next year, then you would defer the receipt of income. However, tax brackets are not the only consideration.

Be sure to contact us before the end of the year if you have questions about your situation. We can help you determine if accelerating or deferring your income can provide tax benefits.

HOW ARE CRYPTO CURRENCIES TAXED?

Bitcoin, Ethereum, and other cryptocurrencies are taxable. The IRS considers cryptocurrency holdings to be "property" for tax purposes, which means your virtual currency is taxed in the same way as any other assets you own, for example stocks or gold. Taxes are due when you sell, trade, or dispose of cryptocurrency in any way and recognize a gain.

With crypto currencies, you can run afoul of the IRS in a few surprising ways, so it pays to learn the rules. What's the big picture? If your employer or client pays you in crypto, that payment is taxable income. You report your transactions in U.S. dollars, which generally means converting the value of your cryptocurrency to dollars when you buy, sell, mine or use it. There are also rumblings that the FED is considering a FED Coin.

QUALIFIED PLUG-IN ELECTRIC VEHICLE CREDITS

The IRS provides a credit for Qualified Plug-in Electric Drive Motor Vehicles including passenger vehicles and light trucks. For vehicles acquired after 12/31/2009, the credit is equal to $2,500 plus, for a vehicle which draws propulsion energy from a battery with at least 5 kilowatt hours of capacity, $417, plus an additional $417 for each kilowatt hour of battery capacity in excess of 5 kilowatt hours. The total amount of the credit allowed for a 2022 vehicle is limited to $7,500. This assumes that the vehicle's manufacturer has not hit the cumulative sales number. As of Q1 2022 most have not.

The credit begins to phase out for a manufacturer's vehicles when at least 200,000 qualifying EV vehicles manufactured by that manufacturer have been sold for use in the United States (determined on a cumulative basis for sales after December 31, 2009). The 200,000-vehicle cap may be fairly easy to reach based on current increasing EV vehicle demand; largely because of the rising price of gasoline.

YEAR END TAX PLANNING TIPS

Tax planning is more advantageous when done during the year and in advance of year's end. Opportunities exist for you to minimize tax liability, which will leave more income for you and/or your family.

Generally, people put off tax planning because paying income taxes is an obligation. This view may cause frustration. It is often simpler to say, "Let's see how everything shakes out between January 1 and April 15." However, after December 31, all you can do is deal with your tax liability. On the other hand, if you take care of the tax planning now, you may save more on April 15.

1 Do a trial tax return based on your projected personal income and deductions. Afterward, adjust your W-4 Form accordingly.

2 If you expect to have income that is not subject to withholding, review your required quarterly estimated tax payments. If you fail to have enough tax withheld or make sufficient estimated tax payments by the end of the year, you may be subject to penalties and interest. Adjust your W-4 or estimated payments to make up any shortfall.

3 Always keep an eye on what is happening in Congress. Tax reform is an ongoing process, and there may be more changes ahead.

4 If you can control when you receive income or take deductions, consider deferring income into next year if you expect to be in a lower tax bracket. Likewise, accelerate your deductions if you expect to be in a higher tax bracket this year as opposed to next. If you expect a tax change for the upcoming year, you may want to revisit this issue.

5 Watch out for the alternative minimum tax (AMT) if you expect to have any large tax items this year such as depreciation deductions, tax-exempt interest, or charitable contributions. To avoid the AMT, consider strategies such as re-positioning assets or delaying charitable contributions.

However, if you are subject to the AMT, consider accelerating next year's income into this year if your regular tax bracket would be higher than the AMT rate. If your itemized deductions increase the likelihood of triggering the AMT and do not generate significant tax savings, consider postponing deductions into next year if you are subject to the AMT this year.

By considering the above tips and establishing the most advantageous strategies for your situation, you may optimize your opportunities and minimize your liability. Consult one of our qualified tax professionals for more information according to your unique circumstances.

Investors

Proper planning can help you time your transactions and make tax-efficient investing decisions. In December 2017, the Tax Cuts and Jobs Act changed the brackets for long-term capital gains and dividends. From 2018-2025, the rates have their own brackets, which are no longer tied to the ordinary income brackets. Below are the 2022 brackets for long-term capital gains and dividends:

2022 Long-Term Capital Gains and Dividend Brackets

	0%	15%	20%
Single	$0–$41,675	$41,676–$459,750	$459,751+
Married filing jointly	$0–$83,350	$83,351–$517,200	$517,201+
Head of Household	$0–$55,800	$55,801–$488,500	$488,501+
Married filing separately	$0–$41,675	$41,676–$258,600	$258,601+
Trusts and estates	$0–$2,800	$2,801–$13,700	$13,701+

CAPITAL GAINS & LOSSES

Gains on assets held longer than a year are treated as long-term capital gains, subject to a 20% maximum rate for individuals.

Under the Patient Protection and Affordable Care Act (PPACA), higher-income taxpayers will pay a 3.8% Medicare surcharge on net investment income if income threshold amounts exceed $200,000 for single filers or $250,000 for joint filers. Thus, the top tax rate for these higher-income taxpayers is 23.8% for long-term gains and 40.8% for short-term capital gains.

It is important to keep in mind that capital gains attributable to depreciation from real estate held longer than 12 months are taxed at 25%, and the gain on collectibles and certain small business stock is taxed at 28%. In addition, short-term gains on assets held one year or less are subject to tax at your regular income tax rate.

Timing Is Everything

When it comes to investing, timing is everything. So, unless you risk a significant loss by holding a volatile stock, consider the tax benefits of holding it for at least a year and one day. Even if the stock price drops, you may cut your taxes on the profit nearly in half if you wait.

Timing is also important at the end of the year. If you have cashed in some big gains during the year, review your portfolio for unrealized losses. You may want to sell off stock unlikely to rebound and use the losses to offset your gains. If you end up with more losses than gains, you can use $3,000 against ordinary income (i.e., compensation, dividends, and interest) and carry over remaining losses to next year.

Always review gains and losses before the end of the year so you can offset gains and make sure you have paid enough in estimated taxes.

Dividends

Qualified dividends are taxed at the same rates as long-term capital gains.

Investment Planning

APPRECIATING INVESTMENTS

Investments that increase in value while paying no income to you are not taxed until they are sold. By timing that sale carefully, you can improve your tax and financial position.

For example, you can wait to sell investments until a year in which your tax rate is low. Or, you can give the investments to your children who are older than age 19 (or age 24 for full-time students); they may sell them and be taxed at their lower rate. (Be sure to consider potential gift tax implications.)

If you plan to pass the investment to your spouse tax-free at your death under the unlimited marital deduction, you may wish to keep the investment. The investment may also pass to your beneficiaries tax-free at your death if your gross estate is less than $12,060 million or $24,120 million for married couples (the estate tax exemption amount in 2022). In addition, your heirs can benefit from a step-up in the investment's basis to its fair market value at the date of your death. In other words, at the time of eventual sale, capital gains taxes are assessed only on the increase in property value from the time of inheritance to the time of sale by the heir.

When deciding whether to buy or sell, consider the costs associated with an appreciating investment, including brokers' fees, closing costs, and property taxes, as well as potential appreciation.

OTHER CONSIDERATIONS

- Don't sell stocks to pay a tax bill. It's usually a bad idea and if they have appreciated, you are generating more taxable income.
- Remember to use the correct basis for stocks or assets you inherit.
- Keep your "buy and hold" stocks in your taxable account and stocks you may hold for shorter periods (as well as high-yield fixed income securities and CDs) in your tax-deferred account.
- The "wash sale" rule disallows losses on stocks and bonds if you buy substantially identical securities (or funds) within 30 days of the sale. Caution: if you sell a mutual fund within 30 days of a reinvested dividend, you could inadvertently violate the rule.
- Owners of worthless securities (but not of worthless partnerships) have seven years to file retrospective claims for tax refunds.
- The penalties for tax-shelter investments the IRS deems lack economic substance are stiff—up to 40%.
- Bond interest is taxable at regular rates that can reach 37% and, when interest rates rise, bond and bond mutual fund values generally fall. Municipal bonds may be good investments for high-incomers, especially in high-tax states.

MUTUAL FUNDS

Mutual funds usually pay capital gain distributions in November or December. If you buy into a fund before the distribution date, you can be taxed on the gains distributed even though they have already been reflected in your purchase price. Consider waiting until January to buy into the fund.

Although you have no control over the timing of sales in a mutual fund, you can look for mutual funds that employ certain tax-saving strategies. Some funds trade actively, while others employ a buy-and-hold strategy.

To calculate exact gains or losses on mutual fund investments, save every statement. Determining which shares are sold can reduce your gain, or at least qualify it as a long-term gain, which is subject to lower tax rates. Also consider everything that comprises your basis:

- Commissions or fees paid when you bought the shares;
- Reinvested dividends for which you have been taxed;
- Nontaxable returns of capital.

PASSIVE ACTIVITIES

Some investment activities are defined as "passive" to prevent their use as tax shelters for other types of income. Passive activities are of two types: 1) the owner (often limited partnerships or S Corporations) does not "materially participate" and 2) any rental activity (irrespective of the level of participation) for which payment is mainly for the use of tangible property. (There are a few exceptions.) Passive activity investments do not include stocks and bonds. There is an exception to the passive-loss restrictions for those who actively participate in renting real estate.

Calendar year filers must report new groupings or changes in how passive activities are grouped. The reporting rules are intended to keep filers from playing games to deduct losses. The grouping rules are important because if two or more activities are grouped as one, the disposition of an activity will not trigger any suspended passive losses until all the others are disposed of.

Passive losses you can't deduct this year can be carried forward and deducted when you dispose of the entire activity or have passive income to offset them. Any interest owners receive on loans to passive activities is treated as portfolio income, and can't be used to offset passive losses—except that interest earned on loans owners make to partnerships or S Corporations with passive activities (such as rental realty) is passive income to the owners. The owners need not have a 10%

share in the S Corporation or partnership to use this break.

To reduce your passive-activity interest expense, reduce your debt in a rental activity or convert the debt to home-equity debt, the interest on which may be deductible. (Use the proceeds from a home-equity loan to repay passive-activity loans.)

BONDS

Instead of borrowing money from a bank or a company, a municipality may sell bonds to investors to help raise capital. The interest on tax-exempt bonds (those issued by a municipality) is usually not taxed at the Federal level, but it may be subject to the AMT or cause Social Security benefits to be taxed. Typically, states do not tax bonds issued within their borders, but they often tax bond earnings from other states.

Companies issue taxable bonds in a number of varieties with varying risk/return tradeoffs. Zero-coupon bonds are sold at a price far below their face values. They pay no cash interest but reinvest earnings, which compound until the bonds mature. At maturity, they are redeemed at face value.

Earnings are taxed each year, although the investor receives no cash. Bonds purchased through a tax-exempt IRA avoid taxation until the funds are withdrawn.

REAL ESTATE INVESTMENTS

Real estate professionals can deduct some rental real estate losses that might be lost by other investors. Generally, you are considered a real estate professional if you (or your spouse, if you file jointly) spend more than half your business time dealing with real estate. This can include time spent on rental properties. Keep detailed records of your time and expenses.

Low-Income Housing Credit

If you are a real estate investor or builder, you can reduce your tax bill with the low-income housing tax credit. This annual credit applies to your qualified new low-income housing
construction costs. The credit is granted for ten consecutive years. Some or all of it can be taken against tax on any type of income, and the unused credit can be carried forward or carried back. For Federally subsidized construction, and for existing housing acquisition, there is a similar credit. The Tax Cuts and Jobs Act lowered the corporate tax rate from 35 to 21 percent, which impacts pricing for the housing credit and affordable housing production, but did retain the credit.

Like-Kind Exchanges

Some people who own real estate for investment purposes are reluctant to sell the property because they may incur a large income tax liability on the realized gain. However, the property can be exchanged and the gain postponed (but not eliminated) under the like-kind exchange rules. To qualify, the property received must also be real estate (land and/or buildings) intended for investment or income-producing purposes. Under the Tax Cuts and Jobs Act of 2017, the types of property eligible for this tax treatment are reduced.

To defer gain on an exchange, you must identify one or more parcels as replacement property. The maximum number that you may identify is either three properties without regard to the fair market values, or any number of properties as long as their aggregate fair market value does not exceed 200% of the aggregate fair market value of all of the relinquished properties. You must identify the property within 45 days and complete the exchange within 180 days after you relinquish your property, or by the due date of your tax return (including extensions), whichever comes first. Due to the Tax Cuts and Jobs Act, the like-kind exchange rules cannot be used for personal property, such as vehicle trade-ins unless one portion of the exchange was completed by December 31, 2017, and one portion remained open by that date.

If you receive anything in addition to the property, such as cash, or if you are relieved of any liabilities, you must recognize the gain up to the value of this additional amount received. Any gain you defer reduces the basis of the replacement property by that amount. While you do not have to recognize the gain, you also cannot recognize the loss.

The like-kind exchange rules can also be used for property that is not real estate, such as equipment or vehicle trade-ins.

INVESTING IN SMALL BUSINESSES

If your stock meets certain requirements at the time of issue and it has been held for at least five years, you can exclude from tax a percentage of your gain from the sale of the stock. The 100% exclusion and preferred AMT treatment were made permanent by the Protecting Americans from Tax Hikes (PATH) Act of 2015, retroactively extended it for 2015. For the purposes of this provision, a small business is defined as a company with assets of less than $50 million that conducts an active trade or business.

You may defer gain on the sale of publicly traded stock if you reinvest in a "specialized small business investment company." Normally, your individual deduction for net capital losses cannot exceed $3,000 each year. However, Section 1244 stock, a category created to encourage investment in small businesses, allows investors to deduct ordinary losses up to $50,000 ($100,000 for a married couple filing jointly).

The stock of most new businesses with no more than $1 million of initial capitalization will be given Section 1244 status. However, only the original owners of Section 1244 stock qualify for ordinary loss treatment.

More Tax Saving Strategies
FOR INVESTMENT PLANNING

- ✓ Under kiddie tax rules, children's unearned income over $2,300 will be taxed at the parents' top rate until the children reach age 18 (age 19 if the child does not provide more than one half his/her own support or age 24 for full-time students) in 2022.
- ✓ To avoid being taxed twice, count reinvested dividends as part of your tax basis when you sell stock.
- ✓ Exercising an incentive stock option (ISO) creates an AMT adjustment, but it produces no corresponding cash with which to pay any resulting AMT. Selling the stock to generate cash may not solve the problem if the stock has dropped in value or is sold prior to having met ISO time requirements.

CHOOSING A BUSINESS STRUCTURE

Your business structure must fit your business needs. As your business grows or your personal financial situation changes, the business form in which you operate may need to change, as well. Keep in mind that the business structure you choose will impact your personal liability, as well as the amount of tax owed by you and your company.

Each business structure has its advantages and disadvantages. Which is right for you? That's a decision that may be best made between you and your team of financial and legal advisors.

2022 Tax Year

For tax years beginning after 12/31/17, the "C" corporation Federal tax rate is a flat 21%. Owners of business entities, which are not taxed as "C" corporations, are eligible for a 20% Qualified Business Income (QBI) deduction. The deduction for QBI may be limited and/or subject to phase-out, depending on the taxable income of the individual, as well as such factors as the type of business, amount of wages paid by the business, and amount of capital assets owned by the business.

For joint filers with income above $329,800, the legislation phases in limits on what otherwise would be an effective marginal rate of not more than 29.6%.

Personal Service Corporations — 21% flat tax rate.

Capital Gains Tax Rate for "C" corporations — Same as regular rate.

FIND AN INVESTOR FOR YOUR BUSINESS THROUGH A SMALL BUSINESS INVESTMENT COMPANY (SBIC)

An SBIC is a privately owned company that's licensed and regulated by the SBA (Small Business Administration). SBICs invest in small businesses in the form of debt and/or equity. The SBA doesn't invest directly into small businesses, but it does provide funding to qualified SBICs with expertise in certain sectors or industries. Those SBICs then use their private funds, along with SBA-guaranteed funding, to invest in small businesses.

SBICs invest in small businesses through debt, equity, or a combination of both. Debt is a loan an SBIC gives to a business, which the business must pay back, along with any interest. Equity is a share of ownership an SBIC gets in a business in exchange for providing funding. Sometimes, an SBIC invests in a business through both debt and equity. Such an investment includes both loans and shares of ownership. A typical SBIC investment is made over a 3-year period.

Debt: A typical SBIC loan ranges from $250,000 to $10 million, with an interest rate between 9% and 16%.

Equity: SBICs will invest in your business in exchange for a share of ownership in your company. Typical investments range from $100,000 to $5 million.

Debt with equity: Financing includes loans and ownership shares. Loan interest rates are typically between 10% and 14%. Investments range from $250,000 to $10 million.

	Tax Rates	Liability
C CORPORATIONS	C corporations' federal marginal tax rates are a flat 21%. Distributions may be taxed again. Shareholders pay tax on dividends. Losses do not pass through to shareholders.	Shareholders are shielded from personal liability for business debts. Only their investment is at risk.
S CORPORATIONS	Generally, no Federal tax is imposed on the business entity. Income and expenses are allocated among shareholders. Taxable income is subject to individual rates from 10% to 37%, whether profits are distributed or not. Losses pass through to shareholders. Restrictions on loss deductibility apply. State treatment of S corporations may vary.*	Shareholders are shielded from personal liability for business debts. Only their investment is at risk.
GENERAL PARTNERSHIPS	No Federal tax is imposed on the business entity. Income and expenses are allocated among partners, and each pays tax of 10% to 37% (plus self-employment tax, if applicable) on their share of partnership profits, whether distributed or not. Losses pass through to partners. Restrictions on loss deductibility apply.*	Personal liability rests with each partner.
LLCs & LLPs	No Federal tax is imposed on the business entity. Income and expenses are allocated to members or partners, and each pays tax of 10% to 37% (plus self-employment tax, if applicable) on their share of LLC or LLP profit, whether distributed or not. Losses pass through to members or partners. Restrictions on loss deductibility apply.*	Members or partners are shielded from personal liability for business debts. Only their investment is at risk.
SOLE PROPRIETORSHIPS	Reported on Schedule C of Form 1040, income is subject to individual rates of 10% to 37%, plus self-employment tax.*	Proprietors are subject to personal liability for all aspects of the business.

* *Owners of business entities, which are not taxed as "C" corporations, are eligible for a 20% Qualified Business Income (QBI) deduction. The deduction for QBI may be limited and/or subject to phase-out, depending on the taxable income of the individual, as well as such factors as the type of business, amount of wages paid by the business, and amount of capital assets owned by the business. For income above $329,800, the legislation phases in limits on what otherwise would be an effective marginal rate of not more than 29.6%.*

EMPLOYER-PROVIDED BENEFITS

It is important for companies to offer generous benefit packages to attract and retain quality employees. Businesses can avoid payroll taxes on compensation shifted from salary to benefits. Employees who receive certain benefits in lieu of salary also decrease their taxable compensation. Such benefits may include retirement plans, group term life insurance (up to $50,000), medical insurance, parking, employee discounts, and noncash gifts.

Employer-provided group term life insurance coverage for more than $50,000 produces taxable income for covered employees. The amount of taxable income is determined by using a uniform premium table based on employee age.

TAX TIP #14

Getting into your employer's retirement plan and/or an IRA is essential to having the proper retirement lifestyle. There are also tax benefits as well. In addition, there is always a chance that Social Security benefits will not cover enough to pay for a decent way of life.

Qualified & Nonqualified Retirement Plans

One of the most effective benefits for attracting and retaining employees is a company-sponsored retirement plan. Many pension and profit-sharing plans are "qualified" retirement plans. In other words, each employee's share and earnings are held until the employee either leaves the company or retires. The employee pays taxes upon receiving the money, and the employer receives an immediate deduction when making contributions.

Pension plans usually base eventual benefits on wages and length of service. Profit-sharing plans typically define the employer's annual contribution. Benefits are determined by the size of the contributions and their earnings.

Two types of qualified retirement plans—SIMPLEs and 401(k) plans—can be offered at little cost to a business. Contribution limits for these plans have increased over the years, so there is no better time to sponsor one. Refer to the chart on page 20 to determine which plan might be appropriate for your business.

Because qualified retirement plans often restrict the amount of benefits a higher-paid employee can receive, nonqualified plans can be attractive. Nonqualified plans do not have to cover every employee. There are no compensation, benefit, or contribution limits other than an overall reasonableness test. The bookkeeping and reporting requirements are minimal. However, nonqualified plans do have some disadvantages.

The main drawback is that the benefits are unsecured—they are merely "promises to pay." A company cannot formally set aside funds as future benefits. Assets intended for these benefits must remain general company assets and, therefore, may be subject to a creditor's claims. Another disadvantage is that payroll taxes are generally due when services are performed, not when compensation is paid. Finally, the employer does not receive a tax deduction until the benefits are actually paid to the covered employees.

Health Insurance

Health insurance is another important benefit that can distinguish one employer from another when it comes to attracting and retaining employees. Over the last several years, rules regarding employer-sponsored health insurance have changed, as a result of health care reform passed in 2010. Small businesses with fewer than 25 full-time equivalent employees (FTE) whose average employee salary is about $50,000 per year or less that pay at least 50% of the health care premiums for their employees qualify for a tax credit of up to 50% of their premiums (up to 35% for nonprofits), if insurance is purchased through an exchange Small Business Health Options Program (SHOP). The amount of the credit for a specific business is based on the number of its employees and the average wage. The smaller the business, the bigger the credit.

While employers are not required to offer health insurance plans under current law, in 2022, a business with 50 or more full-time employees (defined as working 30 or more hours per week) will be required to provide health insurance to at least 95% of their FTE and dependents to age 26 or pay a penalty. The business must provide health insurance plans that meet "minimum value" standards, or ones that cover at least 60% of the total cost of medical services. If the employer's plan fails to meet the minimum value requirement or costs more than 9.61% of an employee's annual income, then the company will have to pay penalties. Companies that don't offer affordable coverage will owe $3,860 for every FTE employee who gains coverage through the marketplace. If an employer fails to offer any type of health insurance, then they will have to pay $2,750 per FTE employee. The employer will only pay the penalty if an FTE employee enrolls in a subsidized health insurance plan on the marketplace. In 2022, companies are allowed to deduct the first 30 FTE employees from their calculations. Employers that offer health care coverage may in some cases also be required to provide "free choice vouchers" to employees. Employers and other entities providing minimum health coverage are required to report the value of health benefits to the IRS, and this value appears on employee W-2 forms. Compliance with the Affordable Care Act (ACA) provisions can be complex so consult with your advisors for guidance.

Which Is Best for Your Business? SIMPLE vs. Standard 401(k)

2022	SIMPLE IRA	SIMPLE 401(k)	Standard 401(k)
Maximum Business Size	100 or fewer employees	100 or fewer employees	No Limit
Individual Contribution Limit	$14,000 in 2022	$14,000 in 2022	$20,500 in 2022
Discrimination Testing	No	Limited	Yes
Mandatory Employer Match	Yes, 1% – 3% of salary	Yes, 3% of salary	No
Vesting	Immediate	Immediate	Up to 7 years
Administration	Least	Medium	Most

Health Savings Accounts (HSAs)

When considering health care benefits, you may want to look at the health savings account (HSA). This portable health care account is available to those who are covered by a high-deductible health plan (HDHP). Employers of any size can set up an HSA plan, and contributions may be made through a flexible spending account.

HSAs reimburse the same expenses as a health flexible spending account (FSA), without the "use-it-or-lose-it" consequences when the plan year ends or the participant changes jobs. In addition, HSA earnings accumulate tax-free.

You can carry over HSA balances from year to year, or roll over an old Medical Savings Account into an HSA if you do so within 60 days. You can roll IRA funds into an HAS – once, up to the maximum annual contribution. A one-time transfer from an IRA to an HSA can make tax sense if after-tax contributions were made to the IRA. Making a medical payment from an HSA after an IRA rollover saves you tax and a 10% penalty on early distributions from the IRA. HSAs can be tapped to pay Medicare Part D premiums if the owner is age 65 or older,but withdrawals to pay them for a spouse are taxed as income and hit with a penalty if the account owner is under age 65. HSAs can be used to pay premiums for COBRA coverage for a spouse or dependent (or medical premiums for them if they're unemployed). Employers can open HSAs and contribute to them if they include all eligible workers. The contributions are then tax-free to the employees and free from payroll and income taxes.

If funds accumulated in an HSA are used for anything other than eligible medical expenses, the account beneficiary is required to pay taxes, plus a 20% penalty. However, there is no penalty for distributions following disability, death, or retirement (at Medicare eligibility age).

Health Reimbursement Arrangements (HRAs)

Another medical reimbursement account is an employer-provided plan called the health reimbursement arrangement (HRA). With an HRA, the employer funds an account from which the employee is reimbursed for qualified medical expenses, such as copays, deductibles, vision care, prescriptions, premiums for medical and long-term care insurance, and some dental expenses. Reimbursements are not taxed to the employee and are deductible by the employer. The employee can carry forward any unused HRA account fund from year to year. Employees may request reimbursement for medical expenses at the time services are rendered, accumulate expenses for reimbursement in the future, or save funds in the HRA for retiree health benefits.

Flexible Spending Accounts

Flexible spending accounts (a.k.a. Section 125 plans) provide an IRS-approved way to lower taxes for both employers and employees. There are several types of FSAs but the medical expense FSA and the dependent care FSA are the most common. These plans allow employees to redirect compensation to pay for qualified unreimbursed medical expenses dependent care expenses, adoption expenses, and certain insurance premiums before personal taxes are computed on their paychecks. Employees end up paying less tax because their taxable income is lower.

The business pays less in Social Security matching funds because employees do not pay Social Security tax on amounts placed in their plan accounts. While sole proprietors, partners, members of an LLC or LLP (in most cases), and individuals owning more than 2% of an S corporation may not participate in flexible spending accounts, they may still sponsor a plan and benefit from lower payroll taxes.

Annual HSA Contribution Limits

- For single coverage, a maximum of $3,650.
- For family coverage, a maximum of $7,300.
- Individuals age 55 and older can contribute an additional $1,000 for 2022 on a pre-tax basis. Amounts are doubled if the account beneficiary is married and both spouses are over age 55.

Medical Expense Reimbursement

Under current law, only medical expenses that exceed 7.5% of AGI are deductible on your 2022 tax return. Since many medical expenses are not covered by insurance plans, paying for them through a flexible spending account with tax-free dollars provides an opportunity for savings.

With a flexible spending account, certain medical expenses become, essentially, tax deductible. Covered expenses include insurance deductibles and copays, doctor's office visits, dental and orthodontia expenses, vision care, eye surgery, prescription drugs, and medical transportation costs.

Dependent Care

Many flexible spending accounts allow employees to pay for a certain amount of child and adult dependent care expenses each year with pre-tax dollars. The American Rescue Plan Act (ARPA) of 2021 temporarily raises the pre-tax contribution limits for dependent care flexible savings accounts to $10,500 for single filers ($5,250 for married couples filing separately) for tax year 2021. The FSA limits will return $5000. Generally, a child or dependent must be younger than 13 or disabled to qualify.

It is important to keep in mind that dependent care expenses paid through a flexible spending account will reduce the amount of the taxpayer's Child and Dependent Care Tax Credit dollar-for-dollar.

Health Insurance

By allowing employees to deduct health insurance premiums from their pay on a pre-tax basis, the employer can save on taxes. In fact, for every dollar employees spend on health insurance, the employer saves 7.65%, or the FICA match.

Premium Only Plans are easy to set up and administer, and unlike other types of flexible spending accounts, they do not require filing claims or an IRS tax filing.

529s at Work

Employers seeking innovative ways to attract and retain a qualified workforce may want to consider including a 529 savings plan as an incentive in their benefit packages, which may be offered with or without company matching contributions. To ease the process for employees and to encourage a disciplined approach to saving, many companies arrange contributions through automatic payroll deductions.

Typically, 529 savings plans provide participants with a variety of investment options and offer two tax advantages: 1) the potential for earnings to grow free of Federal income tax, and 2) the opportunity for withdrawals to be made free of Federal income tax, if funds are used for qualified education expenses, such as tuition, fees, room, and board. Certain state taxes may apply. The Tax Cuts and Jobs Act of 2017 expanded the type of expenses a 529 plan can be used to pay. In 2022, up to $16,000 per year can be used for qualified K-12 elementary and secondary school tuition for public, private, and religious school can be paid for out of a 529. Taxpayers can also rollover amounts from 529 plans into ABLE accounts. Under the Setting Every Community Up for Retirement Enhancement (SECURE) Act, passed into law December 2019, up to $10,000 can be used to pay the account beneficiary's student loans and another $10,000 can be used to repay student loans held by their siblings. The law also allows 529 funds to be used for apprenticeships that are registered with the Federal Labor Department.

BUSINESS TAX CREDITS & DEDUCTIONS

Credits are a great way to cut your business' tax bill because they offer a dollar-for-dollar reduction in tax liability. To take full advantage of these credits, be sure to monitor changes in Federal law, as some incentives are temporary, while others are subject to Congressional renewal. The Tax Cuts and Jobs Act of 2017 contains many tax breaks for businesses, but there are a number of tax breaks that were eliminated or reduced. More recent legislation, such as the 2020 Coronavirus Aid, Relief, and Economic Security Act as well as the American Rescue Plan Act of 2021, also included some provisions for business tax breaks. We can help you monitor changes in tax law and determine which credits are available to you.

TAX TIP #15

If your employer offers a 529 Plan, there two tax benefits; 1. Potential earnings grow tax free, and 2. Withdrawals are free of Federal Income Tax if used to fund a qualified education.

SECTION 199A DEDUCTION

The Section 199 deduction is eliminated for tax years after 2018, for non-corporate taxpayers and for tax years after 2019 for C corporation taxpayers. Under the Tax Cuts and Jobs Act of 2017, a new Section 199A was enacted into law allowing a non-corporate taxpayer a deduction for QBI for taxable years after December 31, 2017, for 10 years. Under the new law, owners of business entities, which are not taxed as "C" corporations, are eligible for a 20% Qualified Business Income (QBI) deduction. The deduction for QBI may be limited and/or subject to phase-out, depending on the taxable income of the individual as well as such facts as the type of business, amount of wages paid by the business, and amount of capital assets owned by the business.

The deduction is limited to the greater of (1) 50% of the W-2 wages with respect to the trade or business, or (2) the sum of 25% of the W-2 wages, plus 2.5% of the unadjusted basis after acquisition of all qualified property. The deduction also may not exceed (1) taxable income for the year over (2) net capital gain plus aggregate qualified cooperative dividends.

Qualified business income is the net amount of qualified items of income, gain, deduction, and loss with respect to a qualified trade or business. However, certain investment-related income, reasonable compensation paid to the taxpayer for services to the trade or business, and guaranteed payments, are excluded from qualified business income.

Section 199A deduction for qualified business income: The threshold amount is $340,100 for married couples filing jointly, $170,050 for married individuals filing separately, and $170,050 for all others. The phase-in range amount is $440,100

TAX TIP #16

If you plan on doing a cost segregation study you may want to do it in 2022 because the benefit will be reduced by 20% each year thereafter.

for married couples filing jointly, $220,050 for married individuals filing separately, and $220,050 for all others.

NEW EQUIPMENT COSTS - SECTION 179

Section 179 Deduction Limits for 2022: The Section 179 deduction limit for 2022 has been raised to $1,080,000. Your company is allowed to deduct the full cost of equipment (either new or used), up to $1,080,000, from 2022's taxable business income.

Bonus Depreciation

Under the Tax Cuts and Jobs Act of 2017, a 100% first-year deduction is allowed for qualified property acquired and placed into service after September 27, 2017 and before 2023. The 100% allowance is phased down starting after 2023: 80% in 2023, 60% in 2024, 40% in 2025, and 20% in 2026, with none allowed after 2026.

Mid-Quarter Convention

Maximize your depreciation deduction by planning qualifying purchases before the end of the year. However, be sure to avoid having depreciation deductions reduced as a result of the "mid-quarter convention," which occurs when more than 40% of your total new property is placed in service during the last three months of the tax year. Purchases fully deducted as Section 179 expenses are removed from the mid-quarter convention computation.

Cost Segregation Studies

Capital cost segregation is a comprehensive study of real property to maximize allowable tax depreciation through faster cost recovery. Generally, real estate improvements must be depreciated over 27.5 or 39 years using a straight-line method.

A cost segregation analysis identifies property components and related costs that Federal tax law allows to be depreciated over five or seven years using 200% of the straight-line rate, or over fifteen years using 150% of the straight-line rate. Under these rules, it is possible to increase your allowable first-year depreciation tenfold. The Tax Cuts and Jobs Act of 2017 expanded the ability to expense qualifying property immediately. Qualifying assets placed in service between September 27, 2017 and December 31, 2022, are eligible for immediate expensing. After 2022, the deduction phases out by 20% each year. Examples of assets that may need proper classification include landscaping, site fencing, parking lots, decorative fixtures, cabinets, and security equipment.

The rules differ for certain property types, and not all states follow Federal depreciation rules. Businesses subject to the alternative minimum tax (AMT) may derive less benefit from cost segregation.

Entertainment

The law eliminates deductions for entertainment even if it is directly related to the conduct of business.

Business Vehicle Depreciation

The Tax Cuts and Jobs Act of 2017 increased the dollar limitations on depreciation and expensing for passenger automobiles. The limits for trucks, vans and passenger cars are the same. The amount of depreciation and expensing deduction should not exceed:

- $10,000 for the 1st taxable year
- $16,000 for the 2nd taxable year
- $9,600 for the 3rd taxable year
- $5,760 for each succeeding taxable year

The Tax Cuts and Jobs Act retained the $8,000 bonus depreciation limit for additional first-year depreciation for passenger automobiles, so in 2022 the maximum amount a taxpayer can deduct for a passenger automobile in the first year is $18,100.

TAX TIP #17

Any tax deduction for entertainment has been completely eliminated even if it is related to the conduct of business.

TRAVEL & ENTERTAINMENT EXPENSES

The Tax Cuts and Jobs Act of 2017 has changed the way businesses handle meals, entertainment and transportation expenses from a tax perspective.

Meals

The Consolidated Appropriations Act, 2021, in order to help the struggling restaurant industry, increased the business-meal deduction for the cost of food and beverages provided by a "restaurant" from 50 percent to 100 percent in 2021 and 2022, if certain conditions are met. Documentation of the business purpose of the meal is necessary for deductibility. The recently changed tax law extends the 50% deduction limit to employer-operated eating facilities through 2025. After 2025, employer-operated eating facilities become non-deductible.

Transportation

The tax law changes of 2017 also eliminated deductions for qualified transportation fringe benefits and certain expenses to provide commuting transportation to employees. The cost of providing employee's transit passes or parking is no longer allowed as a deduction to the employer. In addition, the costs associated with providing transportation for an employee's commute to work are not deductible unless necessary to ensure an employee's safety.

Under nonaccountable expense reimbursement plans, employees must declare flat allowances in their ordinary income and expense are taken as miscellaneous deductions.

Business related travel expenses are still deductible under the new law. This includes business travel between job sites, travel to a temporary assignment (generally one year or less) that is outside your general area of residence, travel between primary and secondary jobs, and all other cab, bus, train, airline, and automobile expenses. Any regular commuting expenses to your primary job cannot be deducted. The Tax Cuts and Jobs Act changed the deductibility of unreimbursed employee expenses. Previously if a taxpayer incurred business travel expenses that the company did not reimburse, they could deduct these on their individual income tax return (subject to limitations), but under the recent law changes this is no longer allowed.

SUBSTANTIATION REQUIREMENTS

To support business travel deductions, keep supporting documents for expenses. Document the following: Date, place, amount, and business purpose of expenditures; name and business affiliation or business purpose of trip; and in the case of meals, all of the above must directly precede or follow a substantial business discussion associated with your business. Be sure to keep personal expenses separate from business expenses.

EXPENSE REIMBURSEMENT PLANS

Companies may institute "accountable" or "nonaccountable" expense reimbursement plans. Generally, accountable plans better serve both the employer and employee.

Under accountable plans, employees submit mileage logs or actual expense receipts for which they are reimbursed at the standard mileage rate or for actual expenses. The company deducts the reimbursements in full, and employees do not report them as income or deduct related expenses.

Under nonaccountable plans, employees receive flat expense allowances. Employees must declare the allowance as income, and the expenses are taken as miscellaneous itemized deductions, subject to the deduction floor. The employer may owe FICA on the allowances.

Charitable Contributions

The Tax Cuts and Jobs Act of 2017 changed charitable giving. Since the standard deduction almost doubled in 2018, it means individual taxpayers, including owners of businesses that are not corporations, have less incentive to give to charities. Generally, if you want to give and get a deduction, you must itemize all charitable deductions, in an effort to getting above the standard deduction amount.

The Consolidated Appropriations Act (CAA) of 2021 maintains and enhances the charitable contributions provisions that were originally created by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. This means that individual taxpayers who do not itemize can deduct up to $300 of qualified cash contributions on their 2022 tax return as an above-the-line deduction (the deduction is $600 for joint filers). The CAA also temporarily extends the provision that allows taxpayers who itemize to deduct up to 100% of AGI for qualified contributions (rather than the usual 60%).

C corporations with excess inventory may donate surplus property to charitable organizations and receive a tax deduction. For example, if you contribute food or medical supplies to a charity that provides for the homeless, you may deduct not only the cost of the goods, but also half of the lost profit (not to exceed twice the cost). For 2022, corporate contribution deductions are limited to 25% (normally 10%) of the corporation's taxable income before considering the donation.

EMPLOYING YOUR CHILDREN

There are tax advantages to putting your teenage son or daughter to work in your business. Wages paid to your child are fully deductible as a business expense. If you are a sole proprietor or a partner in a partnership in which only you and your spouse are partners, you do not have to pay FICA on those wages if the child is under age 18, nor do you have to pay unemployment insurance if the child is under age 21. The child's wages may be subject to a lower tax rate than if you were to retain the same money as business earnings.

Children will have to pay tax on the salary you pay him/ her to the extent it exceeds the standard deduction. Children, who are likely in lower tax brackets, pay a 10% rate on earned income up to $9,950, and 12% on the next $30,575. A child with earned income receives a standard deduction of up to $12,900 for 2022 and may qualify for an IRA deduction of $6,000, which can total $18,900 free from Federal income tax.

Children may also be partners in partnerships or shareholders in S corporations, which can reduce the overall family tax burden in certain situations.

EMPLOYEE OR INDEPENDENT CONTRACTOR?

Your business may have already discovered the advantages of outsourcing projects or certain business functions, including payroll taxes, insurance, and benefit cost savings. Be aware, however, that the IRS continues to scrutinize whether a worker has been properly classified as an employee or an independent contractor. If an audit reveals a worker's status has been misclassified, the business may face penalties and additional employment taxes.

In determining whether a worker is an employee under common law, a business is advised to consider all the factors that might indicate its control or the worker's independence. According to the IRS, factors that provide evidence of control and independence fall into three categories: behavioral control,

financial control, and type of relationship. Give us a call if you would like to discuss these factors.

CHOOSING THE BEST INVENTORY METHOD

In a period of rising prices, the use of the LIFO (last-in, first-out) inventory identification method can produce income tax savings. This method increases your cost of goods sold (thereby reducing your taxable income) by assuming that the higher priced inventory units you most recently purchased were the ones actually sold. If you use the LIFO method for tax purposes, you must also use it in preparing financial statements for credit purposes and reports to stockholders.

In times of falling prices, the FIFO (first-in, first-out) inventory identification method may provide larger tax savings. It assumes that the higher priced inventory units you purchased first are the ones that have been sold.

You can generally change from one inventory method to another, but you may need to obtain IRS approval. Depending on your situation, you may be able to realize income tax savings by choosing one method over the other. Some small businesses with gross receipts of $10 million or less may be able to ignore inventories altogether. Call us to see if you qualify.

BENEFITING FROM BUSINESS LOSSES

If your business has suffered losses, make sure you take advantage of every allowable deduction. Net operating losses (NOLs) are generated when a company's deductions for the tax year are more than its income. Under the Tax Cuts and Jobs Act of 2017, carrybacks of NOLs are no longer allowed, but an indefinite carryforward of NOLs is allowed. The current tax law also sets a limit on the amount of NOLs that a company can deduct in a year equal to the lesser of the available NOL carryover or 80% of a taxpayers pre-NOL deduction taxable income. Corporate capital losses are also currently deductible, but only to the extent of capital gains. A three-year carryback and a five-year carryforward period apply.

The CARES Act added a five-year carryback period for NOLs generated in a taxable year beginning after December 31, 2017 and before January 1, 2021. It also clarified that the 80% taxable income limitation equals 80% of the excess of taxable income that exceeds the amount of NOLs carried forward (prior to the Tax Cuts and Jobs Act) to any taxable year beginning after December 31, 2020.

If your business is not incorporated or operates as a partnership, S corporation, or LLC, you may deduct business losses on your personal tax return. But, losses may be limited because of the at-risk or passive activity loss rules. Keep in mind that you can only deduct your share of losses to the extent that you have sufficient income tax basis for your investment.

Also, take advantage of other possible loss deductions. You may deduct all or some bad business debts as ordinary losses when your good-faith collection efforts are unsuccessful. Inventory losses, casualty and theft losses (to the extent they are not covered by insurance), and losses from a sale of business assets may also be deductible.

BUSINESS SUCCESSION PLANNING

On average, only one closely held business in three successfully passes on to the next generation. A lack of proper transition planning is often why businesses fail after their founders retire, sustain a disability, or die. By implementing a business succession plan, you can help protect your company's future. At a minimum, a sound plan may help you accomplish the following:

1. Transfer control according to your wishes.
2. Carry out the succession of your business in an orderly fashion.
3. Minimize tax liability for you and your heirs.
4. Provide financial security for you and your family after you step down.

To succeed, you need to examine the immediate, intermediate, and long-term goals of your family and your business. With a timeline in place, it is possible to fine-tune your plan based on the involvement you wish to have in the company and the future you envision for your business.

As you develop the appropriate tax and financial strategies, two important steps are valuating your business and deciding how to transfer ownership. There are many valuation methods. Depending on your situation, one technique may be more appropriate than another. The common goal for business owners selling their businesses is to reach a valuation that fairly compensates the owner for his or her interest, while making the price attractive to the potential buyer. Profit may be less of a concern for owners who are passing a business to children.

Owners have a variety of options for transferring ownership, and the most appropriate strategy depends on your specific situation, considering your personal financial and tax situation, your current form of business ownership (sole proprietorship, partnership, corporation, etc.), and the future owners (family, employees, third party, etc.). One or more of the following tax minimization strategies can play a key role in your planning process:

- Gift stock to family members. Begin now so ownership can be transferred while avoiding unnecessary transfer taxes.
- Employ a buy-sell agreement that fixes the estate tax value of your business. An effective agreement provides estate tax liquidity and provides your successors with the means to acquire your stock.
- Create an employee stock ownership plan (ESOP), and sell your stock to the plan. Special rules allow you to sell your stock to the ESOP and defer the capital gains tax if you reinvest in qualified securities.

Ownership can be transferred to your employees over time, and your business can obtain income tax deductions for plan contributions.

- Plan to qualify for the estate tax installment payment option. It allows you to pay the portion of your estate tax attributable to your closely held business interest over a period of up to 14 years. Artificially low interest rates apply during the tax-deferral period. Other special rules apply.

Call us for help securing your company's future with a business succession plan. We can help guide you through this complex process.

More Tax Saving Strategies

FOR YOUR BUSINESS

- ✓ To the extent possible, shift income into next year and accelerate deductions.
- ✓ Consider whether your current form of business is still the most appropriate for you.
- ✓ Set up a nonqualified deferred compensation plan for your highest paid employees.
- ✓ Perform a compensation and fringe benefit study to see whether tax benefits can allow you to offer more generous benefits that help attract and retain qualified employees. For example, you may choose to "split the difference" with employees on compensation increases by providing benefits that are deductible by the company and tax free to the employee.
- ✓ Consider how state and local taxes and year-end strategies may affect your overall plan.

Retirement Planning

Planning for the Future

RETIREMENT STRATEGIES

It is never too early to start saving for retirement. Tax reform through the years has enhanced certain planning opportunities, most recently with the Setting Every Community Up for Retirement Enhancement (SECURE) Act signed into law in December 2019. It is the most far-reaching retirement legislation passed by Congress since the Pension Protection Act of 2006. The SECURE Act incentivizes employers to offer defined contribution (DC) plans, promotes lifetime income options, and improves retirement plan accessibility, design and administration You may still have time to accumulate sufficient retirement assets, provided you plan ahead, stay disciplined, and regularly review your strategies.

TAX TIP #19

If your business requires one or more key employees to continue successfully, consider establishing a nonqualified deferred compensation plan for your highest paid employees.

Retirement plan contributions can offer two large tax benefits: they can 1) potentially reduce your AGI and current income tax and 2) grow faster than your other assets because they're sheltered from tax until withdrawn. (Roth-type accounts are notable exceptions; withdrawals are generally not taxed.) Take advantage of your employer's plan especially if it features an employer match (which is free money for you once it is vested) or you qualify for catch-up contributions (age 50 or older).

If you have stock from your company in your retirement plan, find out its "cost basis" now; this number will help determine your later taxes and affect how you should take distributions. Employee contributions to pension plans can be rolled over into another plan via a trustee-to-trustee transfer. Non-spousal as well as spousal beneficiaries can roll over a decedent's interest in a qualified plan under strict rules. Consult with your advisor.

We can help you make sense of your options, as well as advise you on how tax law changes may impact your current plans. By choosing tax-favored retirement vehicles, you can save money now *and* later.

If you withdraw funds from your IRA before you reach age 59½, you may be subject to a 10% tax penalty. Withdrawals for qualified college expenses or to fund up to $10,000 of a first home purchase are taxed, but you are not penalized for the early withdrawal.

TAX TIP #20

Transferring ownership of a family business is a challenging process. However, it is frequently more challenging upon the death of the founder especially if no estate plan or buy-sell agreement is in place.

INDIVIDUAL RETIREMENT ACCOUNTS (IRAS)

IRAs remain an attractive option for retirement savings. Traditional IRA contributions may be tax deductible, depending on your income and participation in an employer-sponsored retirement plan. Contributions and earnings accumulate on a tax-deferred basis. However, income taxes are due when distributions are taken.

The contribution limit is $6,000 in 2022 (and will be adjusted for inflation in subsequent years). If you are age 50 or older, you can contribute $7,000. The total of your contributions to one or more IRAs may not exceed these limits. Deductions phase out for active participants in an employer-sponsored plan as follows: for single filers with AGIs between $68,000 and $78,000, and for joint filers with AGIs between $109,000 and $129,000. Due to changes from the SECURE Act, for tax years beginning in 2020, working individuals are now allowed, regardless of their age, to contribute to a traditional IRA. The age cutoff used to be 70½.

A "nonparticipant" spouse may make a deductible IRA contribution, as long as the couple's AGI is less than $208,000. Couples with a nonworking spouse can make a combined contribution of up to $12,000 (plus catch-up, if applicable).

Required minimum distributions (RMDs) are required once the owner of a traditional IRA reaches age 72. The first RMD can be delayed until April 1 of the year after turning 72 (a change since the passing of The SECURE Act). For each year thereafter, the deadline is December 31. The RMD amount is determined by 1) the previous-year year-end IRA balances and 2) a life-expectancy schedule provided by the IRS. With the passing of The SECURE Act in December 2019, fewer beneficiaries will be able to extend distributions from the inherited IRA over their lifetime. Many will instead need to withdraw all assets from the inherited IRA within 10 years following the death of the original account holder. Exceptions to the 10-year distribution requirement include assets left to a surviving spouse, a minor child, a disabled or chronically ill individual, and beneficiaries who are less than 10 years younger than the decedent.It is important to recognize that anyone who has inherited an IRA from an original IRA account holder prior to January 1, 2020 may continue to receive the same RMD's based on their current distribution schedule. Tax will be due on withdrawal of the deductible contributions and earnings (see worksheet on page 29).

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) temporarily provides for special distribution options and rollover rules for certain retirement plans and IRAs. This includes expanded distribution options and favorable tax treatment for up to $100,000 of COVID-related distributions from eligible retirement plans (such as section 401(k) plans and IRAs) to qualified individuals, as well as special rollover rules for those distributions.

Roth IRAs

Roth IRAs, with their tax-free distributions, continue to be popular savings vehicles. Contributions to Roth IRAs are not deductible, and are subject to income limitations. As with traditional IRAs, you may contribute up to $6,000 to a Roth IRA in 2021 ($7,000 if you are 50 or older). Again, combined contributions to one or more IRAs may not exceed these limits.

The greatest benefits of Roth IRAs may be in transferring wealth to heirs. A Roth IRA is not subject to RMDs during the owner's lifetime, contributions are allowable at any age, and may provide far more to a beneficiary than other plans. Assets in the account for five tax years can pass to heirs without current income tax. Non-spousal beneficiaries of a Roth IRA have to take minimum distributions (which are tax-free) but can stretch them out over a lifetime. In the meantime, the Roth continues to enjoy tax-free growth.

A Roth can grow into a large sum for a child who has earned income. The parent can fund the account but the contribution amount cannot exceed the child's earned income.

Is My IRA Contribution Deductible?

Work	Status	Modified AGI	Contribution Limit
You're covered by retirement plan at work	Single and Head of Household	$68,000 or less $68,000–$78,000 $78,000 or more	Full Partial None
	Married, Filing Jointly	$109,000 or less $109,000–$129,000 $129,000 or more	Full Partial None
Neither you nor your spouse is covered by retirement plan at work	Single and Head of Household	No Limits	Full
	Married, Filing Jointly	No Limits	Full
You're not covered by retirement plan at work but your spouse is	Married, Filing Jointly	$204,000 or less $204,000–214,000 $214,000 or more	Full Partial None
	Married, Filing Single	Special rules apply	

TAX TIP #21

Remember that you may be subject to a 10% penalty if you withdraw funds from your retirement plan under the age of 59 1/2. The exceptions are for higher education expenses, qualified first home purchase, certain major medical expenses or long-term unemployment.

Traditional IRA or Roth IRA? Which Is Best for You?

Owners of traditional IRAs may continue to convert these accounts to Roth IRAs, regardless of income, allowing more taxpayers to take advantage of the Roth IRA through direct contributions or conversions. When converting, the distribution from your traditional IRA is taxed, but you are not penalized for the early withdrawal.

Switching to a Roth from a traditional IRA can make more of seniors' Social Security benefits taxable in that year, and the increase in income could cause loss of some tax breaks. Try to schedule the conversion in a year your income dips or you have investment losses. Upper-incomers may have to pay a surcharge on their Medicare Part B premiums, and Roth conversion income counts toward the AGI trigger point. Even lower-income seniors who convert might see more of their Social Security benefits taxed, but at least they won't have to take minimum distributions from the Roth and any withdrawals will be tax-free.

A conversion must meet certain conditions and the taxation on the conversion can be complex. Always consult with your advisor before making a conversion to determine if it is right for you.

If you are fairly young, expect to be in a similar tax bracket when you retire, or are concerned about cash flow during retirement, a Roth IRA may be an appropriate choice. If you are older and expect to be in a lower tax bracket, you may be a candidate for a deductible IRA. Keep in mind, however, that a number of factors need to be considered when choosing an investment vehicle. We can help you calculate which retirement savings strategies are right for you. For additional information on IRAs, see the chart on page 27. Whichever IRA you choose, start making contributions now, and continue making them each year. Doing so will allow you to take full advantage of the tax benefits.

*ROTH IRA Income Limits**

	Contributions Reduced	Ineligible
Single Filers	$125,000 – $140,000	Over $140,000
Joint Filers	$198,000 – $208,000	Over $208,000

*Modified Adjusted Gross Income

NOTE: If you withdraw any of the amount rolled over or converted into a Roth IRA within five years of the rollover, you may be charged a 10% early withdrawal tax.

EMPLOYER-SPONSORED PLANS

Employer-sponsored plans are a staple of retirement income for many individuals. There are two main types of plans: defined benefit plans and defined contribution plans. Defined benefit plans are traditional pensions, which typically offer retirement benefits based on salary and length of service. Retirement income from defined contribution plans depends on the amount of money contributed and the investment performance of the account. Among the most significant reforms included in the SECURE Act legislation are provisions that remove barriers to unrelated small businesses and employers to join together and participate in "open" multiple employer plans (MEPs), also referred to as "pooled employer plans" (PEPs). These changes will go into effect in 2021.

Because employees are often responsible for taking the initiative to participate and fund defined contribution plans, tax planning is key. If you are employed by a company that offers matching contributions, take advantage of what is essentially free money by contributing at least enough to get the full

Traditional IRA or ROTH IRA? Which Is Best for You?

	TRADITIONAL	ROTH
Eligibility Requirements	Any age with compensation, subject to income limits	Any age with compensation, subject to income limits
Tax Benefit	Tax-deferred growth	Tax-free growth
Tax Treatment of Withdrawals	Earnings and deductible contributions are taxed when withdrawn	Tax-free withdrawals (five-year requirement and other conditions must be met)
Contributions	Tax deductible (deductibility depends on retirement plan participation status and income limits)	Not deductible
Maximum Annual Contribution (2021)	$6,000 or 100% of compensation, whichever is less, per person per tax year (aggregate to both a traditional or Roth IRA, plus an additional $1,000 for those age 50 and older)	Same
10% Early Withdrawal Penalty	Yes, if under age 59½ and withdrawal is not for higher education expenses, qualified first home purchase, certain major medical expenses, or certain long-term unemployment expenses	Same
Mandatory Distributions	Distributions must start at age 72	No requirement

match. In addition to lowering your current taxable income, your contributions have the potential for tax-deferred growth. Let's take a look at some popular defined contribution plans.

401(k) Plans

401(k) plans are qualified plans offered by many employers. As an employee, you can contribute a certain percentage of your salary, as defined by the plan, or up to the contribution dollar limit, whichever is less.

The limit for elective salary deferrals in 2022 is $20,500. Those age 50 and older can contribute an additional $6,500. You do not pay taxes on contributions until you receive money from the plan, which is usually when you retire and may be paying taxes at a lower rate.

Some employers match a portion of employee contributions and may also make additional contributions on behalf of the employees. Self-employed taxpayers may make deductible matching contributions to their plans. Employer contributions may be distributed according to the plan's vesting schedule. So, if you leave a job before being fully vested, you may not receive all of the employer's contribution. You will, however, always be 100% vested in the funds you have contributed and their earnings.

Roth 401(k)s

A Roth option may be available to those participating in traditional 401(k) plans. Like the Roth IRA, contributions to a Roth 401(k) are made with after-tax dollars, and earnings and distributions are tax free, provided you have owned the account for five tax years and are at least 59½ when you make withdrawals. However, unlike the Roth IRA, Roth 401(k)s have no income restrictions, and they are subject to the more generous elective salary deferral limits that apply to conventional 401(k)s—$20,500 for taxpayers under the age of 50 and $27,000 for older workers in 2021.

You may choose to designate all or part of your elective 401(k) contributions as Roth contributions. However, matching contributions made by an employer must be invested in a traditional account, not a Roth. Participants in 401(k), 403(b), and 457(b) plans are permitted to roll over funds into Roth accounts within their plans, if available. Because contributions to traditional 401(k)s are made on a pre-tax basis, any funds transferred from traditional to Roth 401(k) accounts are taxed in the year of conversion.

Simplified Employee Pension Plans (SEPs) and SIMPLE Programs

SEPs let employers make deductible contributions to the IRAs of employees and avoid much paperwork. All eligible employees must be covered but there's no waiting period for vesting. SEPs are easily converted to Roths.

Savings Incentive Match Plans for Employees (SIMPLEs) can be adopted by companies with 100 or fewer employees who earned at least $5,000 last year. The plan must be made available to every employee who made at least $5,000 in each of the previous two years, and owner-employees are allowed to participate.

SIMPLE programs can be designed as either an IRA plan or as a simplified 401(k) plan. These plans have contribution requirements and are not subject to nondiscrimination rules. The employer must match the contribution dollar for dollar, up to 3% of the employee's compensation, or make an overall 2% contribution to every eligible participant. All contributions to a SIMPLE account are immediately fully vested.

Preserving Retirement Funds

Many retirement plans allow you to take vested benefits with you if you change jobs before retiring. However, unless your retirement benefit from your former employer is paid directly to your IRA or to your new employer's plan, 20% of your funds must be withheld for Federal taxes. These funds will be refunded when you file your tax return. Without a direct rollover, funds may be needed to pay taxes and penalties for early distribution.

Social Security Benefits

In retirement, up to 85% of your Social Security benefits may be taxed, depending on your income level. You may be affected if your modified adjusted gross income (AGI plus half of Social Security benefits plus tax-exempt income) exceeds $32,000 ($25,000 if you are single).

The age at which individuals may start collecting full Social Security benefits is increasing. Full retirement age will increase gradually for those born after 1937 from age 65 to age 67. Early retirement at age 62 is still an option, but your monthly benefit will be reduced.

Taking benefits at age 62 may be tempting, even with the reduced benefit. However, if you choose to continue working to supplement your Social Security income, your benefits may be reduced further if you earn more than the maximum amount allowed. If you are under the full retirement age, receive Social Security benefits, *and* earn additional income in 2022, your benefits will be reduced by $1 for each $2 earned over $19,560. If you reach full retirement age in 2022, your benefits will be reduced by $1 for every $3 earned over $51,960 in months leading up to full retirement age. Upon reaching full retirement age, Social Security benefits are not reduced because of earnings.

The Social Security Administration offers online calculators to help you plan your retirement income. For more information, visit their website at www.ssa.gov.

IRA Required Minimum Distribution Table

Based on the SECURE Act (Setting Every Community up for Retirement Enhancement) changes, you must take out your first RMD (Required Minimum Distribution) by April 1 of the year after you turn 72. For all subsequent years, you must take the money out of your accounts by December 31.

Generally, your martial status is determined as of January 1 of each year. If your spouse is the beneficiary of your IRA on January 1, he or she remains a beneficiary only for purposes of calculating the required minimum distribution for that IRA even if you get divorced or your spouse dies during the year.

You must increase your IRA balance by any outstanding rollover and recharacterized Roth IRA coversions that were not in any traditional IRA on December 31 of the previous year.

Here is the IRS RMD table to 120 years old.

AGE	DISTRIBUTION PERIOD	AGE	DISTRIBUTION PERIOD
72	27.4	97	7.8
73	26.5	98	7.3
74	25.5	99	6.8
75	24.6	100	6.4
76	23.7	101	6.0
77	22.9	102	5.6
78	22.0	103	5.2
79	21.1	104	4.9
80	20.2	105	4.6
81	19.4	106	4.3
82	18.5	107	4.1
83	17.7	108	3.9
84	16.8	109	3.7
85	16.0	110	3.5
86	15.2	111	3.4
87	14.4	112	3.3
88	13.7	113	3.1
89	12.9	114	3.0
90	12.2	115	2.9
91	11.5	116	2.8
92	10.8	117	2.7
93	10.1	118	2.5
94	9.5	119	2.3
95	8.9	120	2.0
96	8.4		

Use This Worksheet To Calculate Your RMD

You can easily figure out how much you need to take out based on the RMD table. Here's how to do the calculation:

1. Determine the balance of your IRA account(s).
2. Find your age on the table and note the distribution period number.
3. Divide the total balance(s) of your account by the distribution period.

This is your RMD.

EXAMPLE

You are 77 years old and the balance of your IRA account is $650,000:

Balance $650,000

Distribution period
for Age 78 22.0
(use chart on adjacent column)

SAMPLE CALCULATION FOR REQUIRED MINIMUM DISTRIBUTION

Balance divided by distribution period

$650,000 divided by 22.0 = $29,545.45

This amounr is the RMD you would have to withdraw for that year.

Retiree #1 CALCULATE YOUR RMD HERE

Your IRA Balance $__________

Distribution period
for your Age e__________
(use chart on page 6)

RMD $___________
Balance divided by distribution period

Retiree #2 CALCULATE YOUR RMD HERE

Your IRA Balance $__________

Distribution period
for your Age e__________
(use chart on page 6)

RMD $___________
Balance divided by distribution period

OTHER RETIREMENT CONSIDERATIONS

You may want to investigate state taxation and its implications for you if you're deciding where to live in retirement. Take into account the state income tax rate, state taxation of retirement benefits and Social Security, state and local property taxes, state estate taxes, and state sales tax. These can vary widely from state to state and could have a measurable impact on your finances.

An important consideration when planning your estate is the selection of a competent executor and perhaps a trustee to ensure your wishes are fulfilled. Generally, you have two choices:

1. Use the services of a financial institution's trust department.
2. Name a family member or friend.

Institutions offer the benefit of technical know-how and continuity over time and the benefits of these should not be understated. However, since they must adhere to established corporate policies, they charge fees, use conservative investment policies, and could possibly be less responsive to the needs of your beneficiaries.

Selecting a family member or trusted friend could potentially reduce or eliminate fees and add a personal touch to the process, but consider your choice carefully because the responsibilities are significant. Your executor needs to be adept at filing tax returns, making complex tax elections, and implementing investment strategies (but they may have limited knowledge of investments).

Just because a family member is the oldest surviving sibling or is willing to serve does not mean he or she is the most appropriate choice. Consider also choosing a successor executor or trustee. Then, if the designated individual cannot or will not serve, you have an alternative plan.

Employees can contribute up to $14,000 in 2022. The "catch-up" provisions also apply to participants in SIMPLE programs. If you are age 50 or older, you can contribute an additional $3,000.

TAX TIP #22

Estate planning can be very complicated and if you have major assets, beneficiaries who require long-term care, or children who may not be capable of managing money, it is essential to take the necessary time to plan for the potential of your untimely death.

ESTATE PLANNING

For most people, transferring wealth to loved ones or a favorite charity is a long-term goal. Appropriate tax planning for your personal situation may help ensure you leave a legacy. Estate planning involves many strategies generally designed to preserve assets, minimize taxes, and distribute property according to your wishes.

If it has been awhile since you reviewed your estate plan, consider doing so, as the landscape of estate and gift planning is changing. Several changes in the SECURE Act, passed in December 2019 may materially affect estate planning and beneficiary decisions that were previously made in a effort to minimize Required Minimum Distributions (RMDs) to heirs and beneficiaries. It is also important to note that state estate tax laws may differ from Federal estate tax laws, and state estate tax laws may differ from state to state.

Federal regulations concerning the taxation of property owned at death contain a catch-all definition stating that the "gross estate of a decedent who was a citizen or resident of the United States at the time of his death includes the value of all property—whether real or personal, tangible or intangible, and wherever situated—beneficially owned by the decedent at the time of his death." The first step in understanding the potential implications of the Federal estate tax is to know what major assets comprise your estate. Consider the following:

- *Personal assets*, such as personal property, savings, real estate, retirement plans, and proceeds from your life insurance policies.
- *Rights to future income*, such as payments under a deferred compensation agreement or partnership income continuation plan. These rights are commonly referred to as "income in respect of a decedent (IRD)" and may be includable at their present cash value.
- *Business interests*, whether as a proprietor, a partner, or a corporate shareholder.

It is important to note, however, that the value of Social Security survivor benefits, received as either a lump sum or a monthly annuity, is not includable in your gross estate.

Determining what may be included in your gross estate may require professional, in-depth analysis. It is also important to re-evaluate your estate plan periodically to help protect your beneficiaries and heirs from having to choose between fulfilling your wishes and meeting estate tax requirements.

Failure to plan your estate not only has the potential to increase your heirs' potential tax liability, but it also leaves responsibility to the state courts to divide your assets, assign guardians for your children, and dictate all other details in handling your estate. Your involvement now can help you prepare for your loved ones' future.

Estate Tax Law Changes

The estate planning landscape has been marked by change and uncertainty over the years. Under 2001 tax law, the Federal estate tax became progressively generous in the run-up to 2010, when it was phased out completely for a single year. Under the 2010 Tax Relief Act, the Federal estate tax was reinstated. The Tax Cuts and Jobs Act of 2017 doubled the exemption amounts from 2018 to 2025. In 2022, there is a top tax rate of 40% and an exemption amount of $12,060,000, or $24,120,000 for married couples.

Early preparation is key to developing appropriate strategies to minimize potential estate taxes and ultimately maximize the amount transferred to your heirs. With the reinstatement of estate taxes, the exemption allows you to transfer $12.06 million to your children or other heirs tax free at death. (Bear in mind that an unlimited amount may be passed tax free

Estate, Gift, and GST Tax Exemptions

Estate Tax Rate Exemption	40%	$12.06 million
Gift Tax Rate Exemption	40%	$12.06 million
GST Tax Rate Exemption	40%	$12.06 million

to a spouse.) If you are married and your combined assets (including life insurance) surpasses $24.12 million, consider implementing advanced planning tools, such as trusts, to help minimize taxes.

The Portability Provision

In the years after The American Taxpayer Relief Act of 2012, the estate tax exemption can be transfered between spouses, so if one spouse dies and does not use the full exemption amount, the remainder can be used by the survivor. To make use of the "portability" option, the executor of the first spouse must actively elect it on the estate tax return, even if no liability is owed. Then, when the remaining spouse dies, the heirs will owe estate tax only on any amount above the combined exemption. This means that husbands and wives do not have to split assets between them, or be concerned about who holds the title on various assets.

Yet, this does not eliminate the need for planning. Wealthy taxpayers who currently fall within the exemption limits may still want to consider setting up a bypass trust in anticipation of future changes in the rules. In addition, couples with different sets of final beneficiaries, such as children from previous marriages, may wish to set up a bypass trust in order to clarify the beneficiaries of their separate assets. See chart on page 31 for more information about commonly used trusts.

Gifts to Family and/or Friends

One way to gradually transfer your estate tax free is to use the annual exclusion and "gift" up to $16,000 per person, per year, to an unlimited number of recipients. If you and your spouse choose to "split" gifts, then $32,000 per year can be given away without you or the recipients paying transfer tax. (Gift-splitting is not necessary in community property states.)

You may also want to take advantage of the lifetime gift tax exemption. In 2022 the top tax rate is 40% and the exemption is $12,060,000.

If you would like to make a gift to a grandchild (or anyone else) and not be limited by the annual exclusion amount, make a direct payment to the providers for education (tuition only) and medical expenses. Gifts of this nature do not count toward the annual limit. You can also exclude gifts of tuition or medical payments made now for future services.

If you transfer realty to a relative for little or no consideration, make certain you report the gift. The IRS is searching property records to uncover unreported gifts.

Gifts may be made directly to the donee or deposited in a trust for the donee's benefit. Many estates can be completely transferred to others in this way over time. There are special requirements when the trust beneficiary does not have a present interest in (does not enjoy current benefits from) the trust property. Gifts to such trusts do not qualify for the $16,000/$32,000 annual exclusions. In the case of trusts set up for minors, annual exclusion gifts are allowed, but beneficiaries must have full access to the trust assets at age 21.

One possible solution to the "present interest" problem is to create a "Crummey" trust for greater flexibility and control. This requires that you give each trust beneficiary a right of withdrawal when funds are transferred to the trust. Transfers subject to Crummey powers will qualify for the annual exclusions.

To enhance your gifting strategy, you may want to consider creating a family limited partnership (FLP), to which you can transfer property (such as rental property) and then gift interests to family members without relinquishing full control.

TAX TIP #23

The IRS is always on the watch for taxpayers who make large gifts without declaring the gift and paying the tax.

Gifting Benefits

1. Post-gift appreciation escapes the estate tax.
2. To the extent of the $16,000/$32,000 per donee, per year annual exclusion, no transfer tax is ever imposed.
3. Gift tax paid reduces your taxable estate. (Limited exceptions apply.)
4. Post-gift income produced is taxed to lower tax bracket donees.

Generation-Skipping Transfer Tax

Transfers to your grandchildren may be subject to the generation-skipping transfer (GST) tax. The generation-skipping transfer (GST) tax is equal to the highest estate and gift tax rate in effect for the year (40% for 2022). The GST tax may be avoided by making gifts that qualify for the annual exclusion directly to your grandchildren. (Crummey power trusts will not work for this purpose.)

Trusts

A trust, simply defined, is an arrangement whereby one person holds legal title to an asset and manages it for the benefit of another. One of the valued characteristics of a trust is its ability to bridge the gap between life and death, allowing a person to "rule from the grave," so to speak. Generally, a trust may be established to last for many generations, ending 21 years after the death of the last named beneficiary, or after a specific number of years as permitted by state law.

During your lifetime, you could establish a trust for your own benefit. For example, you could use a trust to minimize taxes, obtain professional asset management, or accomplish other goals. You may want to participate in a new business venture with strong potential, but high risk. In this case, you could use a trust to help ensure your income in the event of business failure.

On the other hand, trusts can be established for the benefit of others, such as your spouse, parents, children, or grandchildren. Trusts may also be created for the benefit of independent adults for many reasons, including freedom from management burdens, expert administration, mobility, and other practical purposes, like cash savings. While avoiding probate may be a consideration, the estate and gift tax savings associated with the use of trusts may also be important. See the chart on page 32 for other trusts used in estate planning.

Life Insurance Proceeds

If you own a life insurance policy, it is important for you to know that life insurance proceeds are subject to estate tax upon your death if you retain any powers over the policy (such as the

Commonly Used Trusts

TYPE	PURPOSE	BENEFITS
Credit Shelter or Bypass Trust	Created at death to hold and manage assets for your heirs in an amount equal to the estate tax exemption.	Distributes assets free of estate tax to heirs at a predetermined age.
Irrevocable Living Trust	Created by gifts to manage assets you transfer, for beneficiaries you designate. Terms are specified at your discretion.	Keeps trust assets out of your estate if you give up all control. Post-gift appreciation is also excluded. Can be set up so that you pay the taxes on trust income, maximizing the amount available to beneficiaries.
Revocable Living Trust	Protects and manages your assets in the event of your incapacity. Becomes irrevocable at death and provides for asset distribution.	Helps avoid probate and preserves privacy.
Insurance Trust	Owns life insurance policies on your life, and can be used to manage and distribute policy proceeds in accordance with your wishes.	Keeps insurance proceeds out of your estate. Can loan proceeds to your estate to help meet liquidity needs, such as paying estate tax.
Charitable Remainder Trust	Holds appreciated property you transfer for the benefit of a charity. Makes annuity payments to you (or other beneficiaries) and transfers any remainder to the charity at your death.	Gives you an immediate income tax deduction, avoids capital gains tax, provides you with annuity payments, and keeps the transferred property out of your estate.
QTIP (Qualified Terminable Interest Property) Trust	Created at death for the benefit of your spouse and children. Pays all trust income to your spouse for life. Remainder then passes to your children.	Qualifies for the unlimited estate tax marital deduction. Gives you complete control over the final disposition of your property. Often used in second marriages to protect interest of children from a previous marriage.

right to change the beneficiary or borrow against the policy) or if the proceeds are made payable to your estate.

You can transfer a policy to certain life insurance trusts at least three years before you die, or you can give money to the trust to buy a new policy and pay the premiums. Under either method, the proceeds will be free from estate tax, although your initial gift and the premiums paid may be subject to gift tax. If the trust is properly structured, the insurance proceeds can still be available to meet the liquidity needs of your estate.

Residency Concerns

Where you decide to retire can be very important because state income and estate taxes can have a pronounced impact on your overall tax picture.

Changing your domicile (residency) to a state with a more favorable tax climate can save you a lot of tax dollars. For example, some states don't tax retirement account distributions, while some states assess estate tax at much higher marginal tax rates than others.

A state can tax you and your assets only if you are domiciled in that state. To determine your residency status, states will consider factors such as the following:

- Where you are registered to vote
- Where your automobiles are registered
- Where you own real estate
- Where you lived for most of the tax year

Advance Directives

If you were to experience a debilitating illness or become incapable of managing your own affairs, who would make your important legal, financial, and health care decisions? On what authority would this individual act? Fortunately, *advance directives*—legal instructions that express your wishes regarding financial and health care decisions in the event that you become incapacitated—can help deal with such contingencies.

A *durable power of attorney* grants authority to another person to make legal and financial decisions on your behalf in the event of mental incapacity. The powers granted can be broad or limited in scope. A durable power of attorney can assist you with your personal finances, insurance policies, government benefits, estate plans, retirement plans, and business interests.

A *living will* generally allows you to state your preferences prior to incompetency regarding the giving or withholding of life-sustaining medical treatment. A *health care proxy* allows you to appoint an agent to make health care decisions on your behalf in the event of incapacity. These medical decisions are not limited to those regarding artificial life-support.

Advance directives by durable power of attorney, living will, or health care proxy are essential estate planning tools for all individuals, regardless of age. Without such documents, court intervention, involving a great deal of time, expense, and stress to your family, may be necessary to carry out your legal, financial, and health care wishes.

Be advised that this information was not intended or written to be used, and cannot be used, for the purposes of avoiding tax-related penalties; or for promoting, marketing, or recommending to another party any tax-related matters addressed herein.

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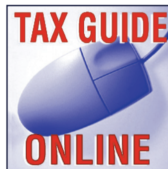

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