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Re: Year-End Tax Planning

Dear Clients, Associates, Friends & Family:

**Year-End Tax Planning for 2022:**

It’s that time of year again—time for year-end tax planning and thinking ahead to next year and possible new tax planning strategies. The following is an overview of some items you may want to consider about your 2022 tax return.

|  |  |
| --- | --- |
| ***Income Tax Rates*** | ***Income Levels for those Filing As:*** |
| **2017** | **2018-2025** | **Single** | **Head of****Household** | **Married-Joint** |
| 10% | 10% | $0-$9,950 | $0 -$14,200 | $0-$19,900 |
| 15% | 12% | $9,950-$40,525 | $14,200-$54,200 | $19,900- $81,050 |
| 25% | 22% | $40,525-$86,375 | $54,200-$86,350 | $81,050-$172,750 |
| 28% | 24% | $86,375-$164,925 | $86,350 -$164,900 | $172,750-$329,850 |
| 33% | 32% | $164,925-$209,425 | $164,900-$209,400 | $329,850-$418,850 |
| 33%- 35% | 35% | $209,425-$523,600 | $209,400 –$523,600 | $418,850-$628,300 |
| 39.6% | 37% | $523,600~ | $523,600~ | $628,300~ |

**Individual Tax Provisions**

1. *Standard Mileage Rate*

Mileage Rate Changes

Purpose Rates Jan 1- June 30, 2022 Rates July 1 – Dec 31, 2022

Business 58.5 62.5

Medical/Moving 18 22

Charitable 14 14

1. *Student Loan Interest Deduction*

The current maximum amount of student loan interest you can claim as a tax deduction is limited to the lesser of **$2,500** per year orthe amount of interest paid during the year on qualified student loans. The deduction is claimed as an adjustment to income. There is a phase out (gradual reduction) period based upon your adjusted gross income. If you are filing as single, head of household or qualifying widow(er), you may claim the full deduction if your MAGI is less than **$70,000**. Your deduction begins to phase out if your MAGI is between **$70,000** and **$85,000**. You may not claim this deduction if your MAGI is **$85,000** or more.

If you are married filing jointly, you can deduct the full **$2,500** if your MAGI is **$145,000** or less. The deduction gradually reduces if your MAGI is more than **$145,000** but less than **$175,000**. It cannot be claimed if your MAGI is **$175,000** or more.

1. *529* *College Savings Plan*

A 529 college savings plan is a unique tax-advantaged savings account designed to encourage saving for qualified future higher-education costs, such as tuition, fees, and room and board. Distributions and earnings from the 529 account are tax exempt, but contributions are not tax deductible. Since the start of 2019, 529 Plans changed so that parents can now withdraw up to **$10,000** per year per student to pay for private, primary, and secondary education tuition. Parents who wish to contribute amounts of **$15,000** or more per individual will qualify for the annual gift tax exclusion. However, amounts of excess of the $15,000 will need to be reported on form 709

There is also an option to make a larger tax-free 529 plan contribution, if the contribution is treated as if it were spread evenly over a 5-year period. For example, a **$75,000** lump sum contribution to a 529 plan can be applied as though it were **$15,000** per year.

1. *Social Security and Medicare*

Starting January 1, 2022, the maximum earnings subject to social security payroll tax will increase by **$4,200** to **$147,000** from 2021. However, all wages are subject to Medicare tax of 1.45 percent. All individuals with a wage base beyond their respective filing status threshold amount will be subject to an additional 0.9 percent Medicare tax. These thresholds are as follows: **$200,000** for single filers **($250,000** for married couples filing jointly and **$125,000** for married couples filing separately). Additional Medicare tax means that a portion of wages received in connection with employment in excess of will be subject to a total of 2.35 percent Medicare tax rate. In short, taxpayers with wage bases below the threshold will have the typical 7.65 percent rate, while those exceeding the thresholds will be subject to the 8.55 percent rate.

The maximum Social Security tax employees and employers will each pay in 2022 is **$9,114.** This is an increase of **$260.40** from **$8853.60** in 2021. The Social Security wage base for self-employed individuals in 2022 will also be **$147,000**. However, the maximum Social Security tax for a self-employed individual will be $**18,228** since self employed taxpayers pay the combined employer and employee tax rates of 12.4 percent (6.2 percent + 6.2 percent). The Medicare tax rate is also doubled; bringing the self-employment tax rate to 15.3 percent (combined Social Security tax rate of 12.4 percent and Medicare tax rate of 2.9 percent) up to the Social Security wage base. With the additional Medicare tax, the total rate for self employed individuals’ maxes out at 16.2 percent.

1. *Child Tax Credit*

This year’s child tax credit is not like any other. Qualified family’s get half of the credit upfront on a recurring monthly basis (6 payments) and then the other half come into play during tax season. Taxpayers had the option to opt out if they did not want the money now or thought that they were not going to qualify for the credit. The new law also raised the bar for the phase-out threshold. The credit will be reduced if your modified AGI is above **$400,000** for married filing jointly; **$200,000** for all other filers. For each **$1,000** of income above your respective threshold, your available child tax credit will be reduced by **$50**. Since 2017, the IRS is required to hold refunds for tax returns claiming the Additional Child Tax Credit until February 15. This hold applies to the entire refund, even the portion of the return not associated with ACTC.

1. *Unearned Income of Minor Children Taxed as Parent’s Income*

For 2022, the first $1,150 of a child's unearned income qualifies for the standard deduction, the next $1,150 is taxed at the child's income tax rate, and unearned income above $2,300 is taxed at the parent's marginal income tax rate.

1. *Capital Gains Rate*

Capital gains tax rates on most assets held for less than a year correspond to ordinary income tax brackets (10%, 12%, 22%, 24%, 32%, 35% or 37%) regardless of your filing status.

Long-term capital gains are taxed at a 0 percent, 15 percent, or a 20 percent rate. The latter rates apply to one of 3 groupings. For Single filers earning up to $41,675, the long-term capital gains tax rate will be 0 percent. Incomes of $41,675 to $459,750 are taxed at a 15 percent tax rate. Lastly, income of $**459,750** and above face a 20 percent tax rate.

For Joint filers earning up to $**83,350**, the long-term capital gains tax rate will be 0 percent. Incomes of **$83,350** to **$517,200** are taxed at a 15 percent tax rate. Lastly, income of **$517,200** and above face a 20 percent tax rate.

For Head-of-Household filers earning up to **$55,800**, the long-term capital gains tax rate will be 0 percent. Incomes of **$55,800** to **$488,500** are taxed at a 15 percent tax rate. Lastly, income of **$488,500** and above face a 20 percent tax rate.

For Married Filing Separate earning up to **$41,675** the long-term capital gains tax rate will be 0 percent. Incomes of **$41,675** to **$258,600** are taxed at a 15 percent tax rate. Lastly, income of **$258,600** and above face a 20 percent tax rate.

1. *Gains* *Made on Home Sales*

Homeowners can still exclude capital gains up to **$250,000** (or $**500,000** if married filing jointly) when they sell their primary residence, but they have to have lived there for a longer time frame than 2 out of the last 5 years. Now, people who sell their homes after December 31, 2017 have to use the home as their primary residence for 5 of the last 8 years before the sale. It can only be claimed once in a 5-year period. The new rule expires on December 31, 2025.

1. *Personal* *Exemption*

The personal exemption is suspended and may no longer be claimed through 2025.

1. *Standard* *Deduction*

For those who are ineligible to claim the itemized deduction, are given the Standard Deduction instead. Starting in 2022, single filers see the deduction rise to **$12,950**; for head of house, it rises to **$19,400**; and for married couples filing jointly, the deduction increases to **$25,900**.

1. *State* *and Local Tax (SALT) Deduction*

One of the single most drastic changes to have come along with the tax reform is the limit placed on the SALT deduction. Prior to 2018, you were able to deduct the maximum amount of state and local income, sales, and property taxes paid throughout a single calendar year. Effective on January 1, 2019, now you are only able to deduct a maximum of **$10,000** in a combined total of these taxes. Married couples filing separately can only deduct a maximum of **$5,000**. There is no policy mentioning the prepaying of 2018 property taxes. The new rule expires on December 31, 2025.

1. *Miscellaneous* *Tax Deductions*

There are a few miscellaneous tax deductions that are no longer deductible under the tax reform as of 2018. Now tax preparation costs, work-related expenses, and investment fees are all suspended until 2025.

1. *Long-Term Care Insurance*

The 2021 credit for long-term care insurance is **$450** for individuals who are 40 years of age or less, **$850** for individuals who are more than 40 years of age but not more than 50, **$1,690** for individuals who are more than 50 years of age but not more than 60, **$4,520** for individuals who are more than 60 years of age but not more than 70, and **$5,640** for individuals who are more than 70 years of ages.

1. *Limit on Elective Deferrals*

The maximum amount of elective deferrals for 2021 under a salary reduction agreement that can be contributed to a qualified plan is **$20,500** (plus **$6,500** if you are or over the age of 50). While the above contribution rules only apply to 401(k) deferrals, the overall annual contribution limit for 401(k) retirement plans has increased slightly from **$58,000** in 2021 to **$61,000** in 2022.

1. *Traditional & Roth IRA Limit*

For 2022, deductions for IRA contributions remain unchanged from 2019. You may be able to deduct up to **$6,000** based on your modified AGI (**$7,000** if you are 50 years or older) if you’re covered by a retirement plan. However, the tax bracket qualifying you for a full or partial deduction has changed. If you are filing single or head of household, you may claim a full deduction up to the amount of your contribution limit if your modified AGI is **$68,000** or less; a partial deduction if more than **$68,000** but less than **$78,000**; and no deduction if **$78,000** or more.

Individuals who are married filing jointly or a qualifying widow(er) may claim the full deduction up to the maximum contribution limit if the total modified AGI is **$109,000** or less; a partial deduction if more than **$109,000** but less than **$129,000**; and no deduction if **$129,000** or more.

Finally, individuals who are married filing separately may claim a partial deduction only if their modified AGI is less than **$10,000**. They may not take a deduction if it’s **$10,000** or more.

1. *American Opportunity Tax Credits, Lifetime Learning, & Tuition & Fee Deductions*

The maximum amount of the American Opportunity Tax Credit (AOTC) is **$2,500** per student. This particular credit is redeemable for a refund of 40% of the excess amount up to **$1,000**, so long as the credit received reduces the tax liability to zero. The credit begins to phase out for single taxpayers, who have an adjusted gross income between, but not including, **$80,000** and **$90,000** and for joint tax filers when adjusted gross income is between, but not including, **$160,000** and **$180,000**. The credit is unavailable to taxpayers whose adjusted gross income exceeds the **$90,000** and **$180,000** thresholds, respectively.

There is another education credit called the Lifetime Learning Credit, which applies to any person(s) who is taking or has taken a college course. The maximum annual credit is **$2,000**, which is calculated as 20 percent of the first $10,000 in qualifying educational expenses. There is no limit to the number of years you may claim this credit. The full credit may be claimed provided that your MAGI is **$68,000** or less if you are filing single, head of household, or widow(er) and **$136,000** if you are married and filing jointly.

A partial credit can be claimed by all single filers if your MAGI begins to exceed **$66,000** but less than **$76,000** (over **$105,000** but less than **$125,000** for married filing jointly). No credit may be given if your MAGI is over **$76,000** **($125,000** for married filing jointly).

The tuition and fees deduction is no longer available for tax years after 2017.

1. *Changes to Flexible Spending*

As of Jan 1, 2022, employees may make a salary reduction contribution of up to **$2,850** to a health flexible spending account.

1. *Adoption Credit*

Tax benefits for adoption include both a tax credit for qualified adoption expenses paid to adopt an eligible child and an exclusion from income for employer-provided adoption assistance. The credit is nonrefundable, which means it is limited to your tax liability for the year. However, any credit in excess of your tax liability may be carried forward for up to five years. For 2022, the maximum credit amount is **$14,890** per child. The maximum credit amount for adopting a child with special needs is **$14,890**.

1. *3.8 Percent Medicare Contribution Tax*

For individuals, the calculation of the 3.8 percent Medicare Surtax is dependent on two factors; a taxpayer’s net investment income (NII) and their modified adjusted gross income (MAGI), after being reduced by a fixed threshold. The 3.8 percent is then applied to the lesser of the two. The aforementioned thresholds are as followed: **$250,000** for Married Filing Jointly and Qualifying widow(er)s with dependent child; **$200,000** for Single and Head of Household; **$125,000** for married couples filing separately.

1. *Child and Dependent Care Credit*

You may be able to claim the Child and Dependent Care credit if you paid work-related expenses for a qualifying individual. The credit is generally given up to 20-35 percent of the amount of work-related expenses you paid to a care provider for the care of a qualifying individual, while the granted rate largely depends on your adjusted gross income. While a maximum potential credit of $**4,000** can be given for the first child/dependent incurring care expenses, 2 or more children/dependents provide the parent/guardian with a maxed credit of **$8,000**. A qualifying individual is defined as a child under the age of 13 when the care is provided; a spouse who is physically or mentally incapable of self-care and lived with you more than half of the year; or an individual who is physically or mentally incapable of self-care, lived with you more than half of the year, and either (a) is your dependant or (b) could have been a dependant but has an income that equals or exceeds the gross income test or files a joint return.

1. *Medical Expense Deduction*

The medical expense deduction floor was unchanged since 2019. Medical care expense may only be deducted if they exceed 7.5 percent of your AGI for the taxable year, provided that you are eligible to itemize at all. Qualified medical expenses include but are not limited to diagnosis, cure, mitigation, treatment, or prevention of disease, or payments for treatments affecting any structure or function of the body.

1. *Earned Income Credit*

For the 2022 tax year, you may deduct a maximum amount of **$560** if you do not have a qualifying child and you earn less than **$16,480** **($22,610** if MFJ), **$3,733** if you have one qualifying child and you earn less than **$43492** **($49,622** if MFJ), **$6,164** if you have two qualifying children and you earn less than **$49,399** **($55,529** if MFJ), and **$6,935** if you have three or more qualifying children and you earn less than **$53,057 ($59,187** if MFJ).

Since 2017, the IRS is required to hold refunds for tax returns claiming Earned Income Credit until February 15. This hold applies to the entire refund, even the portion of the return not associated with the EIC.

1. *Alimony* *Income/Payments*

As per the new tax code, the person making alimony or maintenance payments does not get to deduct them, and the recipient does not claim the payments as income. This went into effect for any divorce or separation agreements signed or modified on or after January 1, 2019.

1. *Affordable* *Care Act Individual Mandate*

Until recently, the Affordable Care Act (ACA) of 2010, taxpayers created a mandate where they would be faced with a penalty of $695 or 2.5 percent, whichever is greater, unless they either satisfied the federally required minimum coverage or unless they were eligible for an exemption. As of January 1, 2019, consumers who do not purchase health insurance will no longer face federal penalties. However, some states have their own individual health insurance mandate. Therefore, you may be required to pay a fee with your state taxes if you do not have qualifying health coverage.

In general, you may be eligible for tax credits to lower your premium if you are single and your annual 2021 income is between **$12,490** to **$49,960** or if your household income is between **$21,330** to **$85,320** for a family of three or more. (the lower income limits are higher in states that expanded Medicaid)

1. *Alternative* *Minimum Tax*

Simply stated, the Alternative Minimum Tax is a policy imposed on high-income families living in high-tax states that requires them to calculate their tax due under the AMT rules alongside the rules for regular income tax. They have to pay the higher amount. The old rule, which began taking effect as of January 1, 2018, stated the exemption amount was $109,400 for married joint filing couples, $70,300 for all other taxpayers (other than estates and trusts). The exemption phase-out threshold rose to $1,000,000 for married couples filing jointly and $500,000 for all other taxpayers. The new rules taking effect from January 1, 2019 allow married couples filing jointly, single filers and estates and trusts to be exempt from AMT at individual thresholds.

As of January 1, 2021, exemptions from the AMT for married couples filing jointly and surviving spouses will begin at **$114,600**, **$73,600** for single filers, and **$25,000** for estates and trusts. The exemption phase-out threshold rose to **$1,047,200** for married couples filing jointly and **$523,600** for all other taxpayers.

1. *Mortgage Deductions*

For anyone considering taking out a new mortgage, the new law imposes a lower dollar limit on mortgages qualifying for the home mortgage interest deduction. Beginning in January 1, 2018, taxpayers may only deduct interest on **$750,000** of new qualified residence loans. The limit is $**375,000** for a married taxpayer filing a separate return. These are down from the prior limits of **$1 million**, or **$500,000** for a married taxpayer filing a separate return.  The limits apply to the combined amount of loans used to buy, build or substantially improve the taxpayer’s main home and second home. However, when itemizing these deductions, taxpayers will forgo the standard deductions.

1. *199A Deduction*

Eligible taxpayers may be entitled to a deduction of up to 20 percent of qualified business income (QBI) from a domestic business operated as a sole proprietorship, partnership, S-corporation, trust or estate. The 199A deduction begins to phase out when taxable income exceeds **$163,300** (single and head of household), **$326,600** (MFJ), and **$163,300** (MFS). A partial deduction can be claimed on taxable income up to **$213,300** (single and head of household) and **$426,600** (MFJ). Income earned through a C corporation or by providing services as an employee is not eligible for the deduction.

1. *Foreign Earned Income Exclusion*

Beginning January 1, 2022, the foreign earned income exclusion is **$112,000**.

1. *Qualified Opportunity Zones*

Qualified Opportunity Zones were created by the 2017 Tax Cuts and Jobs Act. These zones are designed to spur economic development and job creation in distressed communities by providing benefits to investors who invest eligible capital into these communities. Taxpayers may defer tax on eligible capital gains by making an appropriate investment in a Qualified Opportunity Fund within 180 days of the sale of the asset. Recognition of these gains can be deferred through 2026.

**Business Tax Provisions**

1. *Corporate Tax Rate*

The former top corporate tax rate was 35 percent on taxable income greater than $10 million, but now the new rule, effective January 1, 2021, permanently cuts the top corporate tax rate to 21 percent.

1. *Failure to File Penalties*

When failing to file a partnership or S corporation return, you may be subject to a $195 penalty per shareholder for every month the taxpayer fails to failure for up to 12 months.

1. *Depreciation and Section 179 Expense*

Congress has stopped the Section 179 roller coaster of the past few years, and has made the section 179 tax deduction limit permanent. The maximum you can elect to deduct for most section 179 properties you placed in service in tax years beginning in 2020 and beyond is **$1,000,000**. The cost of any sport utility vehicle that may be taken into account cannot exceed **$65,000**. These limits are reduced by the amount by which the cost of section 179 property placed in service during the tax year exceeds **$2,500,000** where phase out begins at **$2,000,000**.

1. *Partnerships, LLC & LLP Filers*

Every LLC treated as a disregarded entity must once again file Form IT-204-LL. The minimum fee for disregarded entities will be **$25.00**. The new fee for the calculation of form IT-204-LL is shown on the NY gross income for the previous year and will range from **$25.00-$4,500**. The deadline for this form has been extended to the 15th of the 3rd month following the close of each tax year.

1. *Pass-Through Business/ 199A Deduction*

Previously, all pass-through business owners’ income was subject to regular personal income tax. Starting in 2019, these business owners can deduct up to 20 percent of their qualified business income from a partnership, S-corporation, or sole proprietorship through the 2025 tax year. Single and head of household filers earning a taxable income (prior to the deduction) of up to **$163,300**, married couples filing jointly earning up to **$326,600**, and married couples filing separately earning up to **$163,300** are eligible for the fullest deduction. Single and head of household filers begin to phase-out and receive partial deduction starting at **$163,301** to **$213,300**; while married couples filing jointly experience the phase-out starting at **$326,001** to **$426,600**

1. *Self Employment Tax*

Any self-employed person’s total FICA tax rate remains to be 15.3 percent on the first **$147,000** of net income (combined employer and employee Social Security tax rate of 12.4 percent and Medicare tax rate of 2.9 percent). The first 12.4 percent applies to the social security part of the self-employment FICA tax. The remaining 2.9 percent applies to the Medicare part of the tax. Any amount earned in excess of filer’s respective thresholds, **$250,000** (MFJ), **$125,000** (MFS), **$200,000** (Single filers) will be subject to the 0.9 percent additional Medicare tax. The additional 0.9 percent is applied to self-employed income above a threshold amount received within the appropriate taxable years. With the additional Medicare tax, the total rate for self-employed individuals maxes out at 16.2 percent. Conversely, all net earnings of at least **$400** are subject to the self-employment tax.

1. *Small Business Health Care Tax Credit*

This credit helps small businesses and small tax-exempt organizations that offer a qualified health plan to its employees through a Small Business Health Options Program afford the cost of their employees. The credit is specific to those businesses with low and moderate income workers. Beginning January 1, 2020, the maximum credit allowed for small business health insurance expenses is as follows; 50 percent of premiums paid for small business employers, 35 percent of premiums paid for small tax-exempt employers. These credits are subjective and work on a sliding scale where smaller employers receive larger credits and larger employers receive smaller credits. The size of the employer is based on the number of employees and their average annual wages.