2022-2023
TAX PLANNING GUIDE

Includes recent tax and legislative updates

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2022 Tax Planning Guide

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.

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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. Assessing risk reward criteria is essential to maintaining a stable financial plan.

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

Individuals and Families

The tax table below will help provide you with a guestimate of what you might owe for 2022:

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.

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.

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. However, higher limitations ($1 million ($500,000 if married filing separately)) apply if you are deducting mortgage interest from indebtedness incurred before December 16, 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. Interest paid on credit cards or loans for consumer items is not deductible.

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.

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.

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 for the first 6 months of 2022 and then 62.5¢ per mile driven for the second 6 months, 18¢ per mile for medical or moving (moving is applicable for members of the U.S. Armed Forces or their spouse or dependents only) for the first 6 months of 2022 and 22¢ for the second 6 months, and 14¢ per mile for charity.

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.

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.

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.

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? 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.

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.

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 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

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.
- ✔ 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.

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.

2022 Saving for Higher Education

	Coverdell Education Savings Accounts	Prepaid Tuition Plans	College Savings Plans
What is the annual contribution limit?	$2,000	Varies by plan	Varies by plan
Are there income limits?	Yes	No	No
Are K-12 expenses qualified?	Yes	Yes	Yes
Are qualified distributions tax free?	Yes	Yes	Yes
Eligible for use with tax credits?	Yes	Yes	Yes
Are there age restrictions?	Yes	No	No

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.

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.

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.

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.

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%. 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.

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.

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.

Business Tax Planning

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.

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.

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.

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.

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	$14,000	$20,500
Discrimination Testing	No	Limited	Yes
Mandatory Employer Match	Yes, 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).

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.

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.**

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.

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.

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.

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.

Entertainment

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

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

2022 Standard Mileage Rates

Business	58.5¢	per mile	Medical	18¢	per mile
Moving*	18¢	per mile	Charitable	14¢	per mile

* For members of the U.S. Armed Forces (or their spouse or dependents).

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.).

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.

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.

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.

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.

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	MAGI	Deduction
You are covered	Single and Head of Household	$68,000 or less	Full
		$68,000–$78,000	Partial
		$78,000 or more	None
	Married, Filing Jointly	$109,000 or less	Full
		$109,000–$129,000	Partial
		$129,000 or more	None
Neither you nor your spouse is covered	Single and Head of Household	No Limits	Full
	Married, Filing Jointly	No Limits	Full
You are not covered but your spouse is	Married, Filing Jointly	$204,000 or less	Full
		$204,000–214,000	Partial
		$214,000 or more	None
	Married, Filing Single	Special rules apply	

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 distribu-tions 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.

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.

2022 Retirement Contribution Limits

	Under Age 50	Age 50 and Over
IRA	$6,000	$7,000
401(k)	$20,500	$27,000
SIMPLE	$14,000	$17,000

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.

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 RMD for that IRA even if you get divorced or your spouse dies during the year.

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

CALCULATE YOUR RMD HERE

Your IRA Balance	$__________
Distribution period for your Age *(use chart on page 6)*	÷ __________
RMD Balance divided by distribution period	$__________

Estate Planning

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.

Benefits of Estate Planning

	With an Estate Plan	Without an Estate Plan
Your Assets	You decide who gets what	Inheritance is determined by state law
Your Children	You choose the guardian	The court appoints a guardian
Your Inheritance	You decide how and when beneficiaries receive their inheritance	Terms and timing are set by law
Your Business	You decide how the family business is to continue	Forced sale or liquidation may cause financial loss and family hardship
Your Executor	You decide who will manage your estate	The court appoints an executor
Your Final Expenses	You can reduce estate settlement costs	Costs may add up due to administrative expenses and unnecessary taxes

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 $12.06 million, or $24.120 million 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 to a spouse.) If you are married and your combined assets (including life insurance) surpasses $24.120 million, consider implementing advanced planning tools, such as trusts, to help minimize taxes.

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.

BENEFICIARY DESIGNATIONS

Your provisions in a will do not necessarily supercede or trump the beneficiary designations you make in trust agreements, insurance policies, bonds, bank accounts and retirement and profit-sharing plans, which can represent most of an estate. These may trump a will, so keep them up to date. Better yet, make sure your will and such designations agree. Don't name your child as beneficiary if your spouse will need the money. These are critical issues to keep in mind.

Here are some ideas for

Succession Planning:

- 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.

ACT NOW

Early planning is key to making the most of your opportunities, especially considering the changing tax laws. We are here to help you reduce your current tax bill and plan for the future. Contact us when planning transactions and before year-end. We will keep you up-to-date.

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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