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2022 Year-End Income Tax Planning for Individuals

With the year-end approaching, this is the time of year we suggest possible year-end tax strategies for our clients. Many of the regulations extended from 2020 are no longer available in 2022. Regulations governing 2022 will resemble those more in line with pre-pandemic times, as many of the provisions from the *CARES Act* of 2020 expired at the end of last calendar year. So, in addition to a handful of benefits for individuals introduced by the *Inflation Reduction Act of 2022*, you will likely rely on the *Tax Cuts and Jobs Act* (TCJA) of 2017 and *Setting Every Community Up for Retirement Enhancement Act* (SECURE Act) of 2019 as the basis for your year-end tax planning strategies.

Key areas for our clients to focus on include:

- Charitable contributions
- Health Savings and Flexible Spending Accounts
- Harvesting Capital Gains and Losses
- Pass-through Entity Taxes
- Retirement planning
- Estate Planning
- Clean Vehicle Tax Credit
- Additional Items to Consider

Below are our planning ideas for your year-end consideration.

Charitable Contributions & Donor Advised Funds

Charitable contributions remain an impactful method of reducing taxable income. Due to changes in the law over the past several years, you may need to carefully plan the timing of your donations to secure the maximum tax deduction.

Cash and Non-Cash Charitable Contributions

The CARES Act extension on the deductibility of cash charitable contributions up to 100% of the taxpayer's adjusted gross income (AGI) expires at the end of 2022. For the 2022 tax year, cash charitable contributions will revert to 60% of AGI. Unfortunately, for those taxpayers who take the standard deduction, there is no longer a $600 maximum "above-the-line" deduction allowed for married filing jointly taxpayers or $300 deduction for single taxpayers in 2022.

Donor Advised Funds

If you itemize as a result of your charitable contributions, you may want to determine if it would be beneficial to set up a donor advised fund. This would allow you to make a large, single-year contribution to maximize your tax deduction. This strategy allows you to "bunch" your contributions into one year, where you benefit from itemizing in that year and then take the standard deduction in the other years. You can donate the cash - or, even better, appreciated stock - into a donor advised fund and receive the charitable deduction, then use the funds to donate to a charity at a later time.

Donations from Your IRA
Consider making charitable donations directly from your traditional IRA if you are age $70^{1/2}$. These donations are not included in your gross income or as an itemized deduction. Reducing your IRA balance may be more beneficial to do now in the event tax rates increase in the future.

Health Savings and Flexible Spending Accounts

Guidance surrounding health accounts for 2022 is not new, but it is an area to consider in your overall planning. For Health Savings Accounts (HSAs), the 2022 annual contribution for a family has increased by $100 from $7,200 in 2021 to $7,300 ($3,650 for individual). If you are 55 or older there is an additional $1,000 catch-up contribution you can make. In addition, if you have a Flexible Spending Account (FSA), make sure you monitor the balance in your account. You may lose funds not used by the end of the plan year.

Harvesting Capital Gains or Losses

This year's market was hot for M&A transactions, resulting in some large capital gains for taxpayers. Regardless of the gain or its source, or if you perhaps experienced a loss, analyze the options below to see what's right for your specific tax situation:

- Consider paying the tax this year in case tax rates increase in the future.
- Work with your financial adviser to harvest capital losses and sell some of your underperforming stocks to offset your gain.
- If you expect to have an overall capital loss, consider generating capital gains to offset your loss. You can then carry forward any capital loss over the $3,000 allowable current year loss to a future year, subject to additional limitations.

Pass-Through Entity Taxes

Over the past couple of years, 36 states, including Ohio, have enacted the pass-through entity (PTE) tax in various forms. A PTE tax allows a pass-through business to be taxed at the entity level, alleviating some of the federal tax burden of the state and local tax deduction cap at the owner level.

The PTE tax can be of great benefit to business owners in states that have enacted such a law. However, be aware that no state is the same in their approach to PTE tax, so you must carefully consider each state's PTE tax and how it may or may not benefit you.

Retirement Planning

The guidance on retirement planning isn't largely different from last year, outside of adjustments to contribution limits and income phase-out thresholds adjusted for inflation. Still, retirement planning is always a great place to look to maximize tax benefits.

Retirement Contributions

As always you can maximize your retirement contributions by contributing pre-tax dollars; this will lower your overall taxable income. The limits for this year are:

- If you are under age 50 you can contribute up to $20,500/year to your 401(k) plan.
- If you are age 50 or older you can contribute up to $27,000/year.
- The 2022 traditional and ROTH IRA contribution limits are $6,000 for individuals under 50 and $7,000 for those 50 years of age or older (although the amount you can contribute to a ROTH is reduced at higher incomes).
- Self-employed persons contributing to a solo 401(k) can contribute up to $61,000.

Retirement Distributions

The SECURE Act also tells us that:

- If you turned 70 by July 1, 2019, you are not required to withdraw your required minimum distributions (RMDs) from your IRA until age 72.
- Individuals with traditional and ROTH IRAs can make regular contributions to their plans due to the removal of the 70 ½ age limit.
- A 10-year time limit was placed on distributions from an inherited IRA account.
- Make sure if you are required to take RMDs that you do so in 2022.

ROTH Conversions

You may also want to consider a ROTH conversion. Instead of paying the tax on your pre-tax retirement account when you withdraw funds, this planning idea allows you to convert a traditional IRA to a ROTH IRA and pay the tax on your retirement income upon conversion. Even though tax rates are scheduled to revert to pre-2018 levels after 2025, such tax rate changes could come sooner should a new law be passed.

Estate Tax Planning

The gift and estate tax and exemptions have been increased for inflation in 2022 to $12,060,000 for individuals and $24,120,000 for married filing jointly. Many taxpayers are no longer subject to the federal estate tax until at least 2026. Here are some items to consider:

- Continue making annual exclusion gifts - you can gift up to $16,000 and $17,000 to any individual for tax years 2022 and 2023, respectively.
- If you are under the exemption amounts, focus on income tax basis planning.
- Make sure all your estate planning documents are up to date.

The Clean Vehicle Tax Credit

The Inflation Reduction Act passed in August 2022 is the largest investment in climate and energy in American history to date. With much of the legislation focused on advancing clean energy manufacturing, there are also multiple new tax credits aimed to incentivize taxpayers to invest in eco-friendly vehicles.

The Clean Vehicle Tax Credit offers a nonrefundable tax credit up to $7,500 to taxpayers who purchase a vehicle that meets certain manufacturing and price requirements. The credit is divided into two different components: $3,750 for vehicles meeting ‘critical minerals’ requirements and $3,750 for vehicles meeting battery requirements. Additionally, the final assembly of the vehicle must occur within North America. The Department of Energy has provided a list of vehicles that may qualify for the credit.

Additional Items to Consider Before Year-End

- The standard deduction increased to $12,950 ($ 14,350 if over 65) for single taxpayer and $25,900 ($27,300 if over 65) for married filing jointly.
- The state and local tax deduction is capped at $10,000, making PTE tax elections discussed above a valuable planning option to consider.
- Section 199A, otherwise known as the Qualified Business Income Deduction (QBID), continues to allow a maximum deduction of 20% of qualified business income from a pass-through entity. Owners of specified service trade or businesses (SSTB) are not eligible for this deduction if their taxable income exceeds a certain threshold. To qualify for this deduction without limitation, an owner's income will need to fall below the $170,050 phase-out threshold for individuals ($340,100 married filing jointly). Owners of an SSTB become completely phased out at $220,050 ($440,100 for those married filing joint) and are no longer eligible for the deduction.