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KEENEY
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2022
YEAR-END TAX PLANNING GUIDE

INTRODUCTION

While consumers continue to be plagued with market volatility, high inflation and rising interest rates, tax law continues to be relatively unchanged for the 2022 tax year. The year brought a few minor tax law changes so the current environment continues for both individuals and businesses. Individuals benefit from generally lower income tax rates, larger standard deductions, limited itemized deductions, eliminated personal exemptions, and lowered alternative minimum tax (AMT). Businesses benefit from generous depreciation rules and deductions.

Keep in mind that most of the impactful provisions from the 2017 tax act (TCJA) are temporary and scheduled to expire at the end of 2025. Furthermore, many of the tax benefits related to the COVID-19 pandemic have expired or reverted back to pre-pandemic levels. Theoretically, that leaves us with a few more years with a stable tax landscape.

Congress is working on legislation addressing retirement plan reform and the omnibus spending package expected in December would likely include "tax extenders" that impact a number of expiring provisions. There have been advanced discussions to increase the child tax credit preferred by Democrats in exchange for improvements to the Research and Development tax credit preferred by Republicans. The midterm election will result in a Republican controlled House and a Democratic controlled Senate in 2023 which likely means that any tax law changes over the next two years will be modest. Tax legislation passed in 2021 and 2022 has provided only relatively small benefits to taxpayers (like increased energy credits) so the 2022 year-end tax planning strategies are generally consistent with the last few years.

It's important to discuss your specific situation in detail with Jenny, Ryan, or Stephanie. Many of the tried and true planning strategies are still beneficial but may vary based on your specific situation. We encourage you to read through the guide and identify any areas that might apply and then give us a call to discuss in more detail.

TAX PLANNING CHECKLIST FOR INDIVIDUALS

Income Planning

- [ ] **Income Acceleration** – If 2022 income is temporarily lower than normal consider accelerating income by taking retirement account distributions, converting an IRA to a Roth IRA, selling assets, or deferring deductions.

- [ ] **Tax-Exempt Income** – Review investment portfolios to consider exposure to municipal bonds. Not only is the interest tax-exempt, but it's also not subject to the 3.8% Net Investment Income Tax (NIIT) that might apply to other taxable income.

- [ ] **0% Tax Rate Income** – For some taxpayers in the 10% or 12% income tax brackets, long-term capital gains and qualified dividend income is taxed at 0%. So if you are in one of these tax brackets, consider capital gain harvesting before year-end to increase basis within a portfolio. Note that wash sale rules that limit capital losses do not apply to gains so the asset can be immediately repurchased.

- [ ] **Like-Kind Exchange** – Consider using a Sec. 1031 like-kind exchange on the sale of real property used as a rental or business property to defer taxable gains.

- [ ] **Capital Gain Deferral** – Realized capital gains from the sale of an investment can be deferred into future years if a portion of the sale proceeds are invested in a Qualified Opportunity Zone Fund (QOF) within certain time periods. The QOF investment could even generate tax-free gain when sold.

- [ ] **Capital Loss Harvesting** – Review your portfolio and consider selling any unrealized capital losses (when appropriate) to offset other realized capital gains. Capital losses can be used to offset capital gains, and unused losses are carried forward to offset future capital gains. However, the wash sale rules will eliminate the benefit if the same asset is reacquired within a specified time period.

- [ ] **Capital Gain Harvesting** - With a possibility of higher tax rates in the future, selling investments with unrealized capital gains before year-end should be considered to lock in the lower capital gains tax rate.

2022 TAX RATES

Single	Married Filing Jointly	Marginal Income Tax Rates	Long-term Capital Gain & Qualified Dividends Tax Rates
$0 to $10,275	$0 to $20,550	10%	0%
$10,276 to $41,675	$20,551 to $83,350	12%	0%
$41,676 to $41,775	$83,351 to $83,550	12%	15%
$41,776 to $89,075	$83,551 to $178,150	22%	15%
$89,076 to $170,050	$178,151 to $340,100	24%	15%
$170,051 to $215,950	$340,101 to $431,900	32%	15%
$215,951 to $459,750	$431,901 to $517,200	35%	15%
$459,751 to $539,900	$517,201 to $647,850	35%	20%
Over $539,900	Over $647,850	37%	20%

TAX PLANNING CHECKLIST FOR INDIVIDUALS (CONTINUED)

Income Planning (Continued)

- ☐ **Suspended Passive Losses** – Consider disposing of passive real estate or business interests to recognize any suspended passive losses. Losses from a passive activity that are not allowed to offset current income due to the passive loss rules are suspended and carried forward. Disposing of a passive activity with suspended losses allows both the current year losses and suspended losses to offset current year income.

- ☐ **Passive/Rental Income** – Explore ways to increase the level of participation with passive entities or rental properties to avoid the additional NIIT. Income from passive activities may be subject to the NIIT 3.8% surtax in addition to income tax. However, this can be mitigated if taxpayers can meet one of the tests for material participation.

- ☐ **Roth IRA Conversion** – Evaluate your IRA and anticipated income level for 2022 to determine if a portion of your IRA should be converted to a Roth IRA. This conversion will create additional taxable income in the current year, at a potentially lower tax rate, but the distributions from the converted account will be income tax free in future years.

- ☐ **Required Minimum Distributions (RMD)** – RMDs for defined contribution retirement plans, including 401(k)s and IRAs, are required to be withdrawn by December 31. The age to begin taking RMDs has changed from 70 ½ to 72 and must be taken by April 1 of the year after you turn 72.

- ☐ **Inherited IRAs** – Recent guidance from the IRS has clarified that non-spouse individual beneficiaries inheriting an IRA from a decedent who passed away after December 31, 2019 are required to take an RMD each year and the account must be fully distributed in 10 years after the decedent passed. Prior IRS guidance indicated that the annual RMD was not required in this situation.

- ☐ **Qualified Charitable Distribution (QCD)** – Taxpayers over age 70 ½ with an IRA who normally make charitable donations, should utilize a QCD to donate funds directly from the IRA to the charity up to $100,000 each year. The amount donated through a QCD will not be included in Adjusted Gross Income which helps increase the tax benefit of the donation. This strategy works especially well if the taxpayer does not itemize deductions.

- ☐ **Child's Income** – Transfer income-producing assets, or appreciated property to kids to utilize their (generally) lower tax bracket. However, the Kiddie Tax could eliminate a majority of the tax savings if the child is under age 18, or under age 24 and a full-time student.

- ☐ **Same-Sex Marriage** – Guidance relating to same-sex marriage has changed tax return filing requirements for certain individuals and created opportunities to potentially reduce income taxes. Furthermore, these changes apply retroactively so it is important to consider prior-year tax returns in light of these changes.

- ☐ **Incentive Stock Options (ISO)** – Due to changes with AMT resulting in an increased AMT income threshold, evaluate ISO exercise strategies and consider exercising ISOs in a qualified transaction.

- ☐ **Foreign Bank Accounts** – With some exceptions, bank accounts, securities, mutual funds, online poker accounts, or insurance policies with cash value that are physically located outside the U.S. must be disclosed to avoid penalties. This applies to employees with signature authority and foreign retirement accounts.

TOP TAX RATES FOR 2022	
Ordinary earned income	37%
Net investment income and passive income (1)	40.8% (2)
Long-term capital gains	23.8% (2)
Qualified dividends	23.8% (2)
Estate and gift tax	40%

(1) Includes interest, dividends, royalties, net rental income, and other passive income

(2) Includes 3.8% surtax on the lesser of a) net investment income or b) adjusted gross income over the applicable threshold of $200,000 for single taxpayers, $250,000 for joint taxpayers, or $13,450 for estates and trusts

TAX PLANNING CHECKLIST FOR INDIVIDUALS (CONTINUED)

Deduction Planning

- [ ] **Retirement Plan Contributions** – Certain retirement plans, such as a 401(k) or Keogh must be established by year-end even though employer contributions are not due until the tax return due date.

- [ ] **Over Age 50 Retirement Plan Contributions** – If over age 50, be sure to utilize the "catch-up contribution" that allows for an additional $6,500 contribution to a 401(k) and a $1,000 contribution to an IRA in addition to the regular contribution limits. (See chart below)

- [ ] **Health Savings Account (HSA) Contributions** – If eligible, contributions to an HSA are tax-deductible and eligible distributions are tax-free.

- [ ] **Bunch Deductions** – With the new increased standard deduction making it harder to reach the threshold to itemize deductions, consider bunching two years of deductions into one year by accelerating or deferring deductions like medical expenses and charitable contributions to maximize the deduction benefit. The goal is to report itemized deductions greater than the standard deduction one year and then utilize the standard deduction, which acts as a floor, in the next year.

- [ ] **Charitable Miles** – A deduction of $0.14 per mile is allowed when using a vehicle for charitable purposes, plus parking fees and tolls.

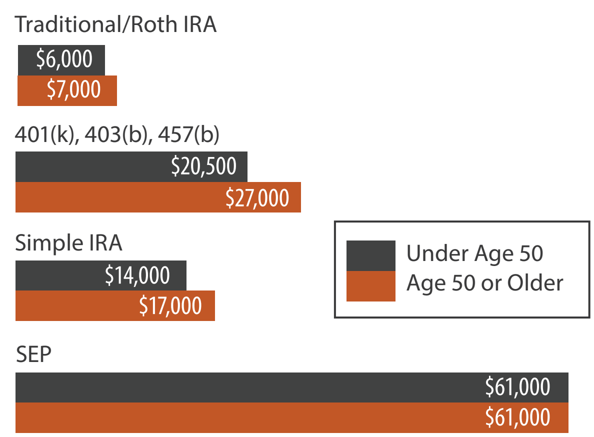
- [ ] **Charitable Contributions of Appreciated Property –** Consider giving appreciated property to a charity instead of cash to receive a deduction for the fair market value and avoid paying tax on the capital gain. Conversely, investment assets with unrealized losses should be sold first, and the cash donated to charity to receive the benefit of the capital loss.

- [ ] **Timing of Charitable Contributions** – Credit card charges and checks mailed on or before December 31, though not actually paid until 2023, are still considered deductions in 2022.

- [ ] **Substantiation of Charitable Contributions** – The IRS has been disallowing charitable contribution deductions when taxpayers are unable to completely meet the substantiation requirements. When giving over $250 to charity, be sure to get an acknowledgment letter from the charity. It would even be advisable to take a photo of non-cash items contributed.

- [ ] **Donor-Advised Funds** - Taxpayers with charitable contributions might consider utilizing a Donor-Advised Fund (DAF) as part of a bunching strategy discussed above. The DAF allows taxpayers to make a large charitable contribution one year, but distribute the funds to charities in future years.

Retirement Plan Contribution Limits for 2022



TAX PLANNING CHECKLIST FOR INDIVIDUALS (CONTINUED)

Deduction Planning

- [ ] **Home Equity Interest** – For tax years 2019 through 2025, the deduction for interest from a home equity loan or line of credit is suspended if the proceeds were not used to acquire or substantially improve your primary or secondary home. The loss of deduction should be factored into the total financing cost for the purchase, and consider reducing the outstanding debt.

- [ ] **Mortgage Interest** – Interest from mortgage loans originating after December 15, 2017, is deductible on mortgage debt up to $750,000. Loans originating before that date are still able to use the previous $1 million limitation. Second mortgages are also deductible as long as the proceeds were used to acquire or improve the residence and the total mortgage debt is below the applicable threshold.

- [ ] **Residential Energy Tax Credits** – The tax credits for installing personal energy property were extended through 2034. This includes an unlimited 30% credit for installing solar water heaters, solar panels, geothermal heat pumps, small wind turbines, and fuel cells and is retroactive to January 1, 2022. For 2022, residential energy efficient property remains unchanged and receives a 10% credit up to $500 for items meeting specific energy efficiency requirements, including biomass stoves, central air conditioners, furnaces, insulation, roofs, hot water heaters, windows, doors, and skylights. The credit is scheduled to increase to 30% in 2023 with an overall annual limit of $1,200 and separate annual limits for individual items.

- [ ] **Education Credits and Deductions** – To be eligible for the American opportunity tax credit or the lifetime learning credit, taxpayers must have a Form 1098-T from the educational institution. Information from Form 1098-T is needed to claim the credits or deductions.

- [ ] **School Teachers** – Elementary and secondary school teachers are allowed to deduct up to $300 on books, supplies, and materials purchased for their classrooms.

<table>
<tr><th rowspan="2">VALUE</th><th colspan="3">CHARITABLE CONTRIBUTION SUBSTANTIATION REQUIREMENTS</th></tr>
<tr><th>Cash Donations</th><th>Non-Cash Donations</th><th>Publicly Traded Stock Donations</th></tr>
<tr><td>$249 or less</td><td>Maintain records to support contribution</td><td>Maintain records to support contribution</td><td>Maintain records to support contribution</td></tr>
<tr><td>$250 - $500</td><td rowspan="4">Maintain written acknowledgement from the charitable organization</td><td>Maintain written acknowledgement from the charitable organization</td><td>Maintain written acknowledgement from the charitable organization</td></tr>
<tr><td>$501 - $5,000</td><td>In addition to maintaining acknowledgement letter, must report date that property was acquired, adjusted cost basis, and method of acquisition</td><td rowspan="3">In addition to maintaining acknowledgement letter, must report date that property was acquired, adjusted cost basis, and method of acquisition</td></tr>
<tr><td>More than $5,000</td><td>In addition to requirements above, must obtain an appraisal from a qualified appraiser</td></tr>
<tr><td>$500,000 or greater</td><td>Obtain an appraisal from a qualified appraiser for assets other than cash or publicly traded securities AND attach a copy of the appraisal to your return along with a confirmation letter from the charity</td></tr>
</table>

TAX PLANNING CHECKLIST FOR INDIVIDUALS (CONTINUED)

Estate and Gift Planning

- ☐ **Annual Exclusion** – Every taxpayer has a $16,000 per-recipient annual exclusion from gift tax. Combined with a spouse's annual exclusion, a married couple can give $32,000 per recipient. Consider evaluating your gifting options before year-end.

- ☐ **Federal Lifetime Exemption** – The federal lifetime exemptions for gift and estate tax is now $12.06 million (this is in addition to the $16,000 per-recipient annual exclusions for lifetime gifts referenced above). The gift and estate tax rate for transfers greater than $12.06 million is 40% for 2022.

- ☐ **State Estate Tax** – Some states, including Washington, Oregon, and Massachusetts, have state estate taxes. The state exemptions are lower than the federal exemption so it is important to consider state estate taxes in your estate plans.

- ☐ **529 Plans** – Contributions to a 529 plan are excluded from a taxpayer's estate and earnings are tax free if withdrawn to pay for Qualified Higher Education expenses.

- ☐ **Stretch IRA** – The Secure Act eliminated the "stretch IRA" strategy for IRAs inherited after 2019 by requiring most non-spouse beneficiaries to withdraw the retirement account funds over 10 years. All taxpayers should revisit their estate plans in light of this change; however, taxpayers that have named a trust as beneficiary of their IRAs should reach out to legal counsel to possibly revise the trust terms in light of these changes.

- ☐ **Charitable Gifts** – Taxpayers with significant charitable intent may be able to receive both an income tax benefit and an estate tax benefit with proper planning.

- ☐ **Valuation Discounts** – Discounts have been an extremely valuable tool in the estate planning arena for decades. Proposed regulations from the Treasury to limit the application of these discounts have been withdrawn so this strategy is still available.

- ☐ **Same-Sex Marriage** – New guidance relating to same-sex marriage has created opportunities for certain individuals. Wills and other estate planning documents should be updated to incorporate these new opportunities.

TAX PLANNING CHECKLIST FOR INDIVIDUALS (CONTINUED)

Tax Planning Checklist for Trusts

☐ **Distributions –** Trusts have a low threshold of $13,450 for the Net Investment Income Tax (NIIT) so most undistributed income in a trust will be subject to the additional tax. Trustees should consider maximizing distributions to beneficiaries and consider strategies to distribute capital gains.

☐ **Income Sources** – Similar to the tax planning strategies for individuals, trustees should evaluate the role of tax-exempt income in the trust's investment portfolio given the 3.8% NIIT on taxable income.

☐ **Passive Activities** – IRS guidance has clarified the application of NIIT on a trust's business and/or real estate income. In light of this new guidance, consider the role of a trustee in the management of the trust assets and whether additional steps can be taken to mitigate this additional tax.

Trust Taxable Income	Marginal Tax Rate
$0 to $2,750	10%
$2,751 to $9,850	24%
$9,851 to $13,450	35%
Over $13,451 *	37%

*Additional 3.8% tax on investment and passive income in excess of $13,450

TAX PLANNING CHECKLIST FOR INDIVIDUALS (CONTINUED)

Tax Planning Checklist for Businesses

- [ ] **Entity Selection** – With the corporate tax rate of 21%, consider evaluating the tax benefits of a C corporation compared to an S corporation.

- [ ] **20% Qualified Business Income Deduction** – Non-corporate taxpayers with income from a pass-through entity or sole proprietorship are allowed a deduction of up to 20% of the Qualified Business Income (QBI). Service businesses are excluded from this benefit in some situations, but rental and other passive activities can be included.

- [ ] **Form W-2** – The filing deadline for Forms W-2/W-3 is January 31. Employers are also required to disclose the annual cost of health plan or HRA coverage to an employee on the W-2.

- [ ] **Health Insurance** – Employers with 50 or more FTE employees must offer minimum essential coverage and report insurance coverage for employees on specified forms.

- [ ] **Cash Method of Accounting and UNICAP** – Taxpayers that satisfy a $27 million gross receipts test may use the cash method of accounting and are exempt from application of the uniform capitalization (UNICAP) rules. Consider evaluating your current reporting methods to determine if an accounting method change would be advantageous.

- [ ] **Limitation on Health FSA Reimbursements** - The maximum Health FSA reimbursement may not exceed $2,850 per year for 2022.

- [ ] **Section 179** – The Section 179 depreciation deduction for qualifying assets acquired in 2022 is $1,080,000. This depreciation deduction begins to phase out once total depreciable assets purchased during the year exceed $2,700,000. The definition of qualifying assets has also been expanded to include roofs, heating systems, HVAC units, and other specific assets that are used in a trade or business.

- [ ] **Bonus Depreciation** – 100% bonus depreciation is allowed for qualified tangible personal property with a recovery period of 20 years or less, for both new and used assets through 2022. Starting 2023, bonus depreciation is limited to 80% and decreasing by 20% each year thereafter.

- [ ] **Automobile Depreciation** – The maximum first-year deduction for a passenger automobile is $19,200, which includes bonus depreciation.

- [ ] **Family Employees** – Consider hiring your school-age child to work for your business part-time. Reasonable compensation is deductible, reducing your self-employment income. No Social Security or Medicare tax is due on the child's earnings if they are under age 18 and the business is not a corporation. Also, the child could make a contribution to a traditional or Roth IRA.

- [ ] **Form 1099** – All businesses with payments to any vendor over $600 must issue Form 1099-NEC for non-employee compensation or Form 1099-MISC for all other payments including rent. Form 1099/1096 is due by January 31 and the penalty for late filing can be as high as $530 per Form 1099 with no maximum penalty. The IRS has emphasized greater enforcement of the Form 1099 compliance process.

TAX PLANNING CHECKLIST FOR INDIVIDUALS (CONTINUED)

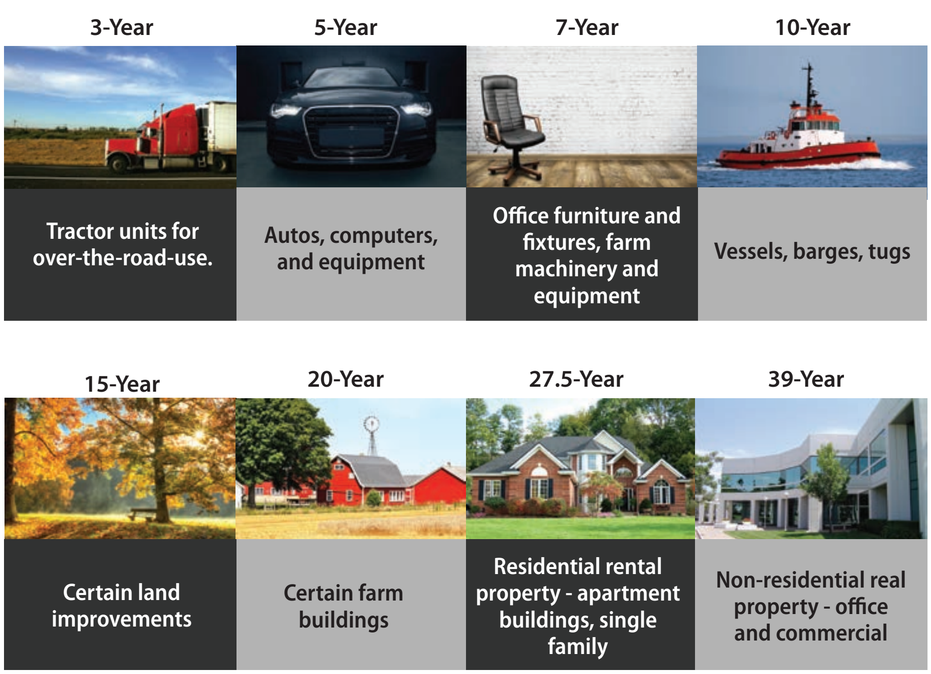
Tax Planning Checklist for Businesses (Continued)

☐ **Form 1099K –** The threshold for reporting funds received through credit card and online payment processors using Form 1099K was lowered to $600. This new threshold does not change the requirement to report business income but it may increase confusion if payments for non-business/personal items are also reported on Form 1099K.

☐ **Small Business Health Care Tax Credit** – Small employers, generally those with fewer than 25 full-time equivalent employees with average wages of $56,000 or less, are allowed a maximum credit for 50% of premiums paid for employees' health insurance. Insurance must be purchased through the Small Business Health Options Program (SHOP) or qualify for an exception to the requirement.

- **Health Reimbursement Arrangement (HRA)** – Employers with fewer than 50 employees and no company-provided health insurance can utilize an HRA to reimburse employees for healthcare expenditures. Annual reimbursements are limited to $5,450 for employee-only coverage and $11,050 for family coverage.
- **Work Opportunity Tax Credit** – Employers who hire and retain veterans and other qualified individuals, including long-term unemployment recipients, are eligible for a tax credit up to 40% of the employee's wages.
- **Employer-Provided Child Care Credit** – Employers can claim a credit of 10 - 20% up to $150,000 for supporting employee child care or child care resource and referral services.
- **Research and Development Credit** – Companies that develop new or improved products or processes may be able to benefit from research tax credit incentives. The research tax credit law was permanently extended.
- **Qualified Small Business Stock** – Up to 100% of the gains from the sale of certain qualified small business stock can be excluded from income.
- **Family and Medical Leave Credit** – Employers that provide paid family and medical leave to qualified employees not related to coronavirus during 2022 are eligible for a credit of 25% of wages paid for up to 12 weeks of pay.

MACRS Depreciation Asset Classes



IMPORTANT TAX DUE DATES		
Tax Form	**Filing Deadline**	**Extended Filing Deadline**
Form W-2/W-3	January 31	N/A
Form 1099/1096	January 31	N/A
Individuals – Form 1040	April 18	October 16
FBAR – Form 114	April 18	October 16
Trusts – Form 1041	April 18	October 2
Partnerships – Form 1065	March 15	September 15
C Corporations – Form 1120	April 18	October 16
S Corporations – Form 1120S	March 15	September 15

Even though there are no significant tax law changes for 2022, it's important to evaluate the planning opportunities based on your current situation. Contact Jenny Keeney, Ryan Blume, or Stephanie Onzay for more information.
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