

# 2022 YEAR-END TAX PLANNING FOR INDIVIDUALS



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With rising interest rates, inflation and continuing market volatility, tax planning is as essential as ever for taxpayers looking to manage cash flow while paying the least amount of taxes possible over time. As we approach year end, now is the time for individuals, business owners and family offices to review their 2022 and 2023 tax situations and identify opportunities for reducing, deferring or accelerating their tax obligations.

The information contained within this article is based on federal laws and policies in effect as of the publication date. This article discusses tax planning for federal taxes. Applicable state and foreign taxes should also be considered. Taxpayers should consult with a trusted HBE advisor when making tax and financial decisions regarding any of the items below.

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## INDIVIDUAL TAX PLANNING HIGHLIGHTS

### 2022 Federal Income Tax Rate Brackets

Tax Rate	Joint/Surviving Spouse	Single	Head of Household	Married Filing Separately	Estates & Trusts
<b>10%</b>	\$0 – \$20,550	\$0 – \$10,275	\$0 – \$14,650	\$0 – \$10,275	\$0 – \$2,750
<b>12%</b>	\$20,551 – \$83,550	\$10,276 – \$41,775	\$14,651 – \$55,900	\$10,276 – \$41,775	-
<b>22%</b>	\$83,551 – \$178,150	\$41,776 – \$89,075	\$55,901 – \$89,050	\$41,776 – \$89,075	-
<b>24%</b>	\$178,151 – \$340,100	\$89,076 – \$170,050	\$89,051 – \$170,050	\$89,076 – \$170,050	\$2,751 – \$9,850
<b>32%</b>	\$340,101 – \$431,900	\$170,051 – \$215,950	\$170,051 – \$215,950	\$170,051 – \$215,950	-
<b>35%</b>	\$431,901 – \$647,850	\$215,951 – \$539,900	\$215,951 – \$539,900	\$215,951 – \$323,925	\$9,851 – \$13,450
<b>37%</b>	Over \$647,850	Over \$539,900	Over \$539,900	Over \$323,925	Over \$13,450

### 2023 Federal Income Tax Rate Brackets

Tax Rate	Joint/Surviving Spouse	Single	Head of Household	Married Filing Separately	Estates & Trusts
<b>10%</b>	\$0 – \$22,000	\$0 – \$11,000	\$0 – \$15,700	\$0 – \$11,000	\$0 – \$2,900
<b>12%</b>	\$22,001 – \$89,450	\$11,001 – \$44,725	\$15,701 – \$59,850	\$11,001 – \$44,725	-
<b>22%</b>	\$89,451 – \$190,750	\$44,726 – \$95,375	\$59,851 – \$95,350	\$44,726 – \$95,375	-
<b>24%</b>	\$190,751 – \$364,200	\$95,376 – \$182,100	\$95,351 – \$182,100	\$95,376 – \$182,100	\$2,901 – \$10,550
<b>32%</b>	\$364,201 – \$462,500	\$182,101 – \$231,250	\$182,101 – \$231,250	\$182,101 – \$231,250	-
<b>35%</b>	\$462,501 – \$693,750	\$231,251 – \$578,125	\$231,251 – \$578,100	\$231,251 – \$346,875	\$10,551 – \$14,450
<b>37%</b>	Over \$693,750	Over \$578,125	Over \$578,100	Over \$346,875	Over \$14,450

### TIMING OF INCOME AND DEDUCTIONS

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Taxpayers should consider whether they can minimize their tax bills by shifting income or deductions between 2022 and 2023. Ideally, income should be received in the year with the lower marginal tax rate, and deductible expenses should be paid in the year with the higher marginal tax rate. If the marginal tax rate is the same in both years, deferring income from 2022 to 2023 will produce a one-year tax deferral, and accelerating deductions from 2023 to 2022 will lower the 2022 income tax liability.

Actions to consider that may result in a reduction or deferral of taxes include:

- ▶ Delaying closing capital gain transactions until after year end or structuring 2022 transactions as installment sales so that gain is deferred past 2022 (also see *Long Term Capital Gains*, below).
- ▶ Considering whether to trigger capital losses before the end of 2022 to offset 2022 capital gains.
- ▶ Delaying interest or dividend payments from closely held corporations to individual business-owner taxpayers.
- ▶ Deferring commission income by closing sales in early 2023 instead of late 2022.
- ▶ Accelerating deductions for expenses such as mortgage interest and charitable donations (including donations of appreciated property) into 2022 (subject to AGI limitations).
- ▶ Evaluating whether non-business bad debts are worthless by the end of 2022 and should be recognized as a short-term capital loss.
- ▶ Shifting investments to municipal bonds or investments that do not pay dividends to reduce taxable income in future years.
- ▶ On the other hand, taxpayers that will be in a higher tax bracket in 2023 may want to consider potential ways to move taxable income from 2023 into 2022, such that the taxable income is taxed at a lower tax rate. Current year actions to consider that could reduce 2023 taxes include:
  - ▶ Accelerating capital gains into 2022 or deferring capital losses until 2023.
  - ▶ Electing out of the installment sale method for 2022 installment sales.
  - ▶ Deferring deductions such as large charitable contributions to 2023.

## LONG-TERM CAPITAL GAINS

The long-term capital gains rates for 2022 and 2023 are shown below. The tax brackets refer to the taxpayer's taxable income. Capital gains also may be subject to the 3.8% Net Investment Income Tax.

### 2022 Long-Term Capital Gains Rate Brackets

Long-Term Capital Gains Tax Rate	Joint/Surviving Spouse	Single	Head of Household	Married Filing Separately	Estates & Trusts
<b>0%</b>	\$0 – \$83,350	\$0 – \$41,675	\$0 – \$55,800	\$0 – \$41,675	\$0 – \$2,800
<b>15%</b>	\$83,351 – \$517,200	\$41,676 – \$459,750	\$55,801 – \$488,500	\$41,676 – \$258,600	\$2,801 – \$13,700
<b>20%</b>	Over \$517,200	Over \$459,750	Over \$488,500	Over \$258,600	Over \$13,700

### 2023 Long-Term Capital Gains Rate Brackets

Long-Term Capital Gains Tax Rate	Joint/Surviving Spouse	Single	Head of Household	Married Filing Separately	Estates & Trusts
<b>0%</b>	\$0 – \$89,250	\$0 – \$44,625	\$0 – \$59,750	\$0 – \$44,625	\$0 – \$3,000
<b>15%</b>	\$89,251 – \$553,850	\$44,626 – \$492,300	\$59,751 – \$523,050	\$44,626 – \$276,900	\$3,001 – \$14,650
<b>20%</b>	Over \$553,850	Over \$492,300	Over \$523,050	Over \$276,900	Over \$14,650

Long-term capital gains (and qualified dividends) are subject to a lower tax rate than other types of income. Investors should consider the following when planning for capital gains:

- ▶ Holding capital assets for more than a year (more than three years for assets attributable to carried interests) so that the gain upon disposition qualifies for the lower long-term capital gains rate.
- ▶ Considering long-term deferral strategies for capital gains such as reinvesting capital gains into designated qualified opportunity zones.
- ▶ Investing in, and holding, “qualified small business stock” for at least five years.
- ▶ Donating appreciated property to a qualified charity to avoid long term capital gains tax (also see *Charitable Contributions*, below).

## NET INVESTMENT INCOME TAX

An additional 3.8% net investment income tax (NIIT) applies on net investment income above certain thresholds. Net investment income does not apply to income derived in the ordinary course of a trade or business in which the taxpayer materially participates. Similarly, gain on the disposition of trade or business assets attributable to an activity in which the taxpayer materially participates is not subject to the NIIT.

In conjunction with other tax planning strategies that are being implemented to reduce income tax or capital gains tax, impacted taxpayers may want to consider deferring net investment income for the year.

## SOCIAL SECURITY TAX

The Old-Age, Survivors, and Disability Insurance (OASDI) program is funded by contributions from employees and employers through FICA tax. The FICA tax rate for both employees and employers is 6.2% of the employee's gross pay, but only on wages up to \$147,000 for 2022 and \$160,200 for 2023. Self-employed persons pay a similar tax, called SECA (or self-employment tax), based on 12.4% of the net income of their businesses.

Employers, employees, and self-employed persons also pay a tax for Medicare/Medicaid hospitalization insurance (HI), which is part of the FICA tax, but is not capped by the OASDI wage base. The HI payroll tax is 2.9%, which applies to earned income only. Self-employed persons pay the full amount, while employers and employees each pay 1.45%. An extra 0.9% Medicare (HI) payroll tax must be paid by individual taxpayers on earned income that is above certain adjusted gross income (AGI) thresholds, i.e., \$200,000 for individuals, \$250,000 for married couples filing jointly and \$125,000 for married couples filing separately. However, employers do not pay this extra tax.

## LONG-TERM CARE INSURANCE AND SERVICES

Premiums an individual pays on a qualified long-term care insurance policy are deductible as a medical expense. The maximum deduction amount is determined by an individual's age. The following table sets forth the deductible limits for 2022 and the estimated deductible limits for 2023 (the limitations are per person, not per return):

Age	Deduction Limitation 2022	Deduction Limitation 2023
40 or under	\$450	\$480
Over 40 but not over 50	\$850	\$890
Over 50 but not over 60	\$1,690	\$1,790
Over 60 but not over 70	\$4,510	\$4,770
Over 70	\$5,640	\$5,960

### RETIREMENT PLAN CONTRIBUTIONS

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Individuals may want to maximize their annual contributions to qualified retirement plans and Individual Retirement Accounts (IRAs).

- ▶ The maximum amount of elective contributions that an employee can make in 2022 to a 401(k) or 403(b) plan is \$20,500 (\$27,000 if age 50 or over and the plan allows “catch up” contributions). For 2023, these limits are \$22,500 and \$30,000, respectively.
- ▶ The SECURE Act permits a penalty-free withdrawal of up to \$5,000 from traditional IRAs and qualified retirement plans for qualifying expenses related to the birth or adoption of a child after December 31, 2019. The \$5,000 distribution limit is per individual, so a married couple could each receive \$5,000.
- ▶ Under the SECURE Act, individuals are now able to contribute to their traditional IRAs in or after the year in which they turn 70½.
- ▶ The SECURE Act changes the age for required minimum distributions (RMDs) from tax-qualified retirement plans and IRAs from age 70½ to age 72 for individuals born on or after July 1, 1949. Generally, the first RMD for such individuals is due by April 1 of the year after the year in which they turn 72.
- ▶ Individuals age 70½ or older can donate up to \$100,000 to a qualified charity directly from a taxable IRA.
- ▶ The SECURE Act generally requires that designated beneficiaries of persons who died after December 31, 2019, take inherited plan benefits over a 10-year period. Eligible designated beneficiaries (i.e., surviving spouses, minor children of the plan participant, disabled and chronically ill beneficiaries and beneficiaries who are less than 10 years younger than the plan participant) are not limited to the 10-year payout rule. Special rules apply to certain trusts.
- ▶ Under proposed Treasury Regulations (issued February 2022) that address required minimum distributions from inherited retirement plans of persons who died after December 31, 2019 and **after** their required beginning date, designated and non-designated beneficiaries will be required to take **annual** distributions, whether subject to a ten-year period or otherwise. This interpretation is at odds with the interpretation under the SECURE Act, in which annual distributions were not required when subject to full payout under the ten-year rule. The IRS came out with further guidance in late 2022, however, saying that final guidance would not be issued until 2023, so no annual distributions would be required until the final guidance is issued. That means that those who’ve inherited applicable plans and are waiting for IRS guidance do not need to worry about taking a distribution before the end of 2022.
- ▶ Small businesses can contribute the lesser of (i) 25% of employees’ salaries or (ii) an annual maximum set by the IRS each year to a Simplified Employee Pension (SEP) plan by the extended due date of the employer’s federal income tax return for the year that the contribution is made. The maximum SEP contribution for 2022 is \$61,000. The maximum SEP contribution for 2023 is \$66,000. The calculation of the 25% limit for self-employed individuals is based on net self-employment income, which is calculated after the reduction in income from the SEP contribution (as well as for other things, such as self-employment taxes).

### FOREIGN EARNED INCOME EXCLUSION

The foreign earned income exclusion is \$112,000 in 2022 and increases to \$120,000 in 2023.

### ALTERNATIVE MINIMUM TAX

A taxpayer must pay either the regular income tax or the alternative minimum tax (AMT), whichever is higher. The established AMT exemption amounts for 2022 are \$75,900 for unmarried individuals and individuals claiming head of household status, \$118,100 for married individuals filing jointly and surviving spouses, \$59,050 for married individuals filing separately and \$26,500 for estates and trusts. The AMT exemption amounts for 2023 are \$81,300 for unmarried individuals and individuals claiming head of household status, \$126,500 for married individuals filing jointly and surviving spouses, \$63,250 for married individuals filing separately and \$28,400 for estates and trusts.

### KIDDIE TAX

The unearned income of a child is taxed at the parents' tax rates if those rates are higher than the child's tax rate.

### LIMITATION ON DEDUCTIONS OF STATE AND LOCAL TAXES (SALT LIMITATION)

For individual taxpayers who itemize their deductions, the Tax Cuts and Jobs Act introduced a \$10,000 limit on deductions of state and local taxes paid during the year (\$5,000 for married individuals filing separately). The limitation applies to taxable years beginning on or after December 31, 2017 and before January 1, 2026. Various states have enacted new rules that allow owners of pass-through entities to avoid the SALT deduction limitation in certain cases.

### CHARITABLE CONTRIBUTIONS

Cash contributions made to qualifying charitable organizations, including donor advised funds, in 2022 and 2023 will be subject to a 60% AGI limitation. The limitations for cash contributions continue to be 30% of AGI for contributions to non-operating private foundations. Tax planning around charitable contributions may include:

- ▶ Creating and funding a private foundation, donor advised fund or charitable remainder trust.
- ▶ Donating appreciated property to a qualified charity to avoid long term capital gains tax.



### ESTATE AND GIFT TAXES

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For gifts made in 2022, the gift tax annual exclusion is \$16,000 and for 2023 is \$17,000. For 2022, the unified estate and gift tax exemption and generation-skipping transfer tax exemption is \$12,060,000 per person. For 2023, the unified estate and gift tax exemption and generation-skipping transfer tax exemption is \$12,920,000. All outright gifts to a spouse who is a U.S. citizen are free of federal gift tax. However, for 2022 and 2023, only the first \$164,000 and \$175,000, respectively, of gifts to a non-U.S. citizen spouse is excluded from the total amount of taxable gifts for the year. Tax planning strategies may include:

- ▶ Making annual exclusion gifts.
- ▶ Making larger gifts to the next generation, either outright or in trust.
- ▶ Creating a Spousal Lifetime Access Trust (SLAT) or a Grantor Retained Annuity Trust (GRAT) or selling assets to an Intentionally Defective Grantor Trust (IDGT).

### NET OPERATING LOSSES AND EXCESS BUSINESS LOSS LIMITATION

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Net operating losses (NOLs) generated in 2022 are limited to 80% of taxable income and are not permitted to be carried back. Any unused NOLs are carried forward subject to the 80% of taxable income limitation in carryforward years.

A non-corporate taxpayer may deduct net business losses of up to \$270,000 (\$540,000 for joint filers) in 2022. The limitation is \$289,000 (\$578,000 for joint filers) for 2023. A disallowed excess business loss (EBL) is treated as an NOL carryforward in the subsequent year, subject to the NOL rules. With the passage of the Inflation Reduction Act, the EBL limitation has been extended through the end of 2028.