2022 – 2023

Tax Planning Guide

Year-round strategies to make the tax laws work for you

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Tax planning may be a real challenge this year

Minimizing taxes is never easy. But in times of legislative and economic uncertainty, it can be a real challenge. To take advantage of all available breaks, you first need to be aware of relevant tax law changes that are going into effect — or that have expired. For example, the Inflation Reduction Act, signed into law in August, includes some tax breaks related to clean energy, plug-in electric vehicles and home energy improvements. But tax provisions intended to provide relief during the height of the pandemic generally have expired.

You also can't forget about the massive Tax Cuts and Jobs Act (TCJA) that generally went into effect four years ago, because the TCJA still significantly impacts tax planning. Finally, you need to keep an eye out for any new tax law changes that might still be signed into law this year and affect 2022 planning.

This guide provides an overview of some of the key tax provisions you need to be aware of. It offers a variety of strategies for minimizing your taxes in the current tax environment. Use it to identify the best strategies for your particular situation with your tax advisor, who also can keep you apprised of any new tax law developments that might affect you.

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Reducing your taxable income with deductions and other breaks

Deductions are valuable because they reduce the amount of your income that's subject to federal tax — and in many cases, state tax, too. Income can also be tax-free if it comes from certain tax-advantaged accounts or is eligible for some other type of exclusion. In recent years, deduction planning has been greatly impacted by the TCJA. For example, this 2017 law reduced or eliminated many deductions while significantly increasing the standard deduction. It also generally reduced tax rates, and deductions save less tax when rates are lower. Proper timing of deductible expenses and taking advantage of other breaks can help maximize your tax savings.

Standard deduction vs. itemizing

Taxpayers can either itemize certain deductions or take the standard deduction for their filing status. Itemizing saves tax when the total will be larger than the standard deduction, but it makes filing more complicated.

The TCJA nearly doubled the standard deduction for each filing status. Those amounts are to be annually adjusted for inflation through 2025, after which they're scheduled to drop back to the amounts under pre-TCJA law. (See Chart 1 for 2022 amounts.)

The combination of a higher standard deduction and the reduction or elimination of many itemized deductions means that many taxpayers who once benefited from itemizing are now better off taking the standard deduction.

State and local tax deduction

Under the TCJA, through 2025, your entire itemized deduction for state and local taxes — including property tax and the greater

Chart 1 2022 standard deduction

Filing status	Standard deduction[1]
Singles and separate filers	$12,950
Heads of households	$19,400
Joint filers	$25,900

[1] Taxpayers who are age 65 or older or blind can claim an additional standard deduction: $1,400 each if married, $1,750 if unmarried.

of income or sales tax — is limited to $10,000 ($5,000 if you're married filing separately). Increasing or eliminating the limit has been discussed. Check with your tax advisor for the latest information.

Deducting sales tax instead of income tax may be beneficial if you reside in a state with no, or low, income tax or you purchased a major item, such as a car or boat.

Home-related breaks

Consider both deductions and exclusions in your tax planning:

Property tax deduction. As noted earlier, unless proposed tax law changes come to fruition, through 2025 your property tax deduction is subject to the state and local tax deduction limit.

Mortgage interest deduction. You generally can claim an itemized deduction for interest on mortgage debt incurred to purchase, build or improve your principal residence and a second residence. Points paid related to your principal residence also may be deductible. Through 2025, the TCJA reduces the mortgage debt limit from $1 million to $750,000 for debt incurred after Dec. 15, 2017 (from $500,000 to $375,000 for separate filers), with some limited exceptions.

Home equity debt interest deduction. Through 2025, the TCJA effectively limits the home equity interest deduction to debt that would qualify for the home mortgage interest deduction. (Under pre-TCJA law, interest was deductible on up to $100,000 of home equity debt used for any purpose, such as to pay off credit card debt or to buy a car.)

Home office deduction. If you're an employee and work from home, under the TCJA, home office expenses aren't deductible through 2025 — even if your employer has required you to work from home. Why? For employees, this is a miscellaneous itemized deduction subject to the 2% of adjusted gross income (AGI) floor, and the TCJA suspended such deductions. (If you're self-employed, you may still be able to deduct home office expenses. See page 21.)

Personal casualty and theft loss deduction. Through 2025, the TCJA suspends this itemized deduction except if the loss was due to an event officially declared a disaster by the President.

But, under an exception, personal casualty losses not related to a disaster can be deducted to the extent of any personal casualty gains. Such gains occur when the amount you receive from insurance or other reimbursements is more than the cost or adjusted basis of the property.

WHAT'S NEW!

Expanded charitable deductions have expired, but giving still offers tax-saving opportunities

Generally, donations to qualified charities are fully deductible — but only if you itemize deductions. For 2020 and 2021, pandemic relief legislation allowed taxpayers who claimed the standard deduction to deduct up to $300 of cash donations to qualified charities (for 2021 only, $600 for married couples filing jointly). As of this writing, nonitemizers can't claim any charitable deductions for 2022, but it's possible Congress could bring back the break. Check with your tax advisor for the latest information.

If itemizing no longer will save you tax because of the increased standard deduction, you might benefit from "bunching" donations into alternating years so that your total itemized deductions in those years would then surpass your standard deduction. You can then itemize just in those years.

For large donations, discuss with your tax advisor which assets to give and the best ways to give them. For example, if you made cash donations in 2020 and 2021 because of the 100% of adjusted gross income (AGI) deduction limit for such gifts to public charities, in 2022 you may want to consider giving appreciated securities instead. Why? For 2022, the deduction limit for cash gifts returns to the normal 60% of AGI limit. While an even lower limit of 30% applies to appreciated security donations, you can avoid any capital gains tax you'd owe if you sold the securities.

Rental income exclusion. If you rent out all or a portion of your principal residence or second home for less than 15 days during the year, you don't have to report the income. But expenses directly associated with the rental, such as advertising and cleaning, won't be deductible.

Home sale gain exclusion. When you sell your principal residence, you can exclude up to $250,000 of gain ($500,000 for married couples filing jointly) if you meet certain tests. **Warning:** Gain that's allocable to a period of "nonqualified" use generally isn't excludable.

Loss deduction. If you sell your home at a loss and part of your home is rented out or used exclusively for your business, the loss attributable to that portion may be deductible.

Moving expense deduction. Under the TCJA, through 2025, work-related moving expenses are deductible only by active-duty members of the Armed Forces (and their spouses or dependents) who move because of a military order that calls for a permanent change of station. (If you're eligible, you don't have to itemize to claim this deduction.)

Tax-advantaged saving for health care

If medical expenses not paid via tax-advantaged accounts or reimbursable by insurance exceed a certain percentage of your AGI, you can claim an itemized deduction for the amount exceeding that "floor." Fortunately the 7.5% floor that had in recent years been a temporary reduction from 10% is now permanent.

Eligible expenses may include health insurance premiums, long-term-care insurance premiums (limits apply), medical and dental services, and prescription drugs. Mileage driven for health care purposes also can be deducted — at 18 cents per mile for Jan. 1 – June 30, 2022, and at 22 cents per mile for July 1 – Dec. 31, 2022.

Consider whether there are any medical services and purchases you could bunch into alternating years. This could save tax if it would help you exceed the applicable floor and you'd have enough total itemized deductions to benefit from itemizing. Of course, your and your family's health is more important than tax savings, so don't adjust timing in a way that would be harmful health-wise.

You may be able to save taxes without having to worry about the medical expense deduction floor by contributing to one of these accounts:

HSA. If you're covered by a qualified high-deductible health plan, you can contribute pretax income to an employer-sponsored Health Savings Account — or make deductible contributions to an HSA you set up yourself — up to $3,650 for self-only coverage and $7,300 for family coverage (plus $1,000 if you're age 55 or older) for 2022. HSAs can bear interest or be invested, growing tax-deferred similar to an IRA. Withdrawals for qualified medical expenses are tax-free, and you can carry over a balance from year to year, allowing the account to grow.

FSA. You can redirect pretax income to an employer-sponsored Flexible Spending Account up to an employer-determined limit — not to exceed $2,850 in 2022. The plan pays or reimburses you for qualified medical expenses. (If you have an HSA, your FSA is limited to funding certain permitted expenses.) What you don't use by the plan year's end, you generally lose — though your plan might give you a 2½-month grace period to incur expenses to use up the previous year's contribution. Or it might allow you to roll over up to $570 to 2023. **Warning:** Some provisions allowing added FSA flexibility because of the pandemic have expired.

More considerations

Keep in mind that legislation could be signed into law that would suspend or alter some of the TCJA provisions affecting deductions or make other changes to deduction rules. Check with your tax advisor for the latest information.

Also be aware that there are other types of taxes that could affect you and should be factored into your planning, such as the alternative minimum tax (AMT). Your tax advisor can help you determine if you're among the small number of taxpayers who still need to plan for the AMT after the TCJA.

Parent or student? Here's how you can save taxes in 2022

Raising children and helping them pursue their educational goals — or pursuing your own — can be highly rewarding. But it also can be expensive. Fortunately, a variety of tax breaks can offset some of the costs. However, a few tax break enhancements available last year expired Dec. 31, 2021.

Child, dependent and adoption credits

Under the TCJA, these two tax credits for families are available through 2025:

1. For each child under age 17 at the end of the tax year, you may be able to claim a $2,000 credit. The credit phases out for higher-income taxpayers (see Chart 2 on page 8) but the income ranges are much higher than before the TCJA. **Warning:** The expanded credit and advanced payments available in 2021 haven't as of this writing been extended to 2022. Check with your tax advisor for the latest information.

2. For each qualifying dependent other than a qualifying child (such as a dependent child over the age limit or a dependent elderly parent), you may be able to claim a $500 family credit. But it's also subject to the income-based phaseout.

If you adopt in 2022, you may qualify for the adoption credit — or for an employer adoption assistance program income exclusion. Both are $14,890 for 2022, but the credit is also subject to an income-based phaseout. (See Chart 2 on page 8.)

Dependent care breaks

A couple of tax breaks can offset the costs of dependent care:

Child and dependent care tax credit. For children under age 13 or other qualifying dependents, generally a credit is available that equals 20% of the first $3,000 of qualified expenses for one child or 20% of up to $6,000 of such expenses for two or more children. So, the maximum credit is usually $600 for one child or $1,200 for two or more children. **Warning:** The expanded credit that was available for 2021 hasn't as of this writing been extended to 2022. Check with your tax advisor for the latest information.

Child and dependent care FSA. For 2022, you can contribute up to $5,000 pretax to an employer-sponsored child and dependent care Flexible Spending Account. The plan pays or reimburses you

for these expenses. You can't claim a tax credit for expenses reimbursed through an FSA. **Warning:** The higher contribution limit available for 2021 hasn't as of this writing been extended to 2022. Check with your tax advisor for the latest information.

Kiddie tax

The "kiddie tax" generally applies to unearned income beyond $2,300 (for 2022) of children under age 19 and of full-time students under age 24 (unless the students provide more than half of their own support from earned income). Such income is generally taxed at the parents' tax rate.

529 plans

If you're saving for education expenses, consider a Section 529 plan. You can choose a prepaid tuition plan to secure current tuition rates or a tax-advantaged savings plan to fund education expenses:

- Although contributions aren't deductible for federal purposes, any growth is tax-deferred. (Some states do offer tax breaks for contributing.)
- Distributions used to pay the following expenses are income-tax-free for federal purposes and potentially also for state purposes, making the tax deferral a permanent savings:
  - Qualified postsecondary school expenses, such as tuition, mandatory fees, books, supplies, computer equipment, software, Internet service and, generally, room and board,
  - Elementary and secondary school tuition of up to $10,000 per year per student, and
  - Up to $10,000 of student loans per beneficiary.
- The plans usually offer high contribution limits, and there are no income limits for contributing.

Case Study 1 **Why Roth IRAs make tax-sense for teens**

Liam, 16, is starting his first part-time job this year. Liam's parents would like to get him in the habit of saving for the future, and they ask their tax advisor for the most tax-advantaged option. She suggests a Roth IRA, which can be perfect for teenagers because they likely have many decades to let their accounts grow tax-free.

Roth IRA contributions aren't deductible, but if Liam earns no more than the standard deduction for singles ($12,950 for 2022) and has no unearned income, he'll pay zero federal income tax anyway. So the tax-free treatment of future qualified distributions will be well worth the loss of any current deduction. Even if Liam's earned income exceeds the standard deduction, he'll probably be taxed at a very low rate. So the long-term tax benefits of a Roth IRA will typically still outweigh the benefit of the current deduction available with a traditional IRA.

- There's generally no beneficiary age limit for contributions or distributions.
- You can control the account, even after the child is of legal age.
- You can make tax-free rollovers to another qualifying family member.
- A special break for 529 plans allows you to front-load five years' worth of annual gift tax exclusions and make up to an $80,000 contribution (or $160,000 if you split the gift with your spouse) per beneficiary in 2022.

The biggest downside of 529 plans may be that your investment options — and when you can change them — are limited.

ESAs

Coverdell Education Savings Accounts are similar to 529 savings plans in that contributions aren't deductible for federal purposes, but plan assets can grow tax-deferred and distributions used to pay qualified education expenses are income-tax-free. ESAs are worth considering if you'd like to have direct control over how your contributions are invested or you want to pay elementary or secondary school expenses in excess of $10,000 or that aren't tuition.

Chart 2 **2022 child and education breaks: Are you subject to a phaseout?**

Tax break	MAGI[1] phaseout range	
	Single / Head of household[2]	Married filing jointly
Child credit	$200,000 – $240,000	$400,000 – $440,000
Adoption credit	$223,410 – $263,410	$223,410 – $263,410
Dependent care credit[3]	$ 15,000 – $ 43,000	$ 15,000 – $ 43,000
ESA contribution	$ 95,000 – $110,000	$190,000 – $220,000
American Opportunity credit	$ 80,000 – $ 90,000	$160,000 – $180,000
Lifetime Learning credit	$ 80,000 – $ 90,000	$160,000 – $180,000
Student loan interest deduction	$ 70,000 – $ 85,000	$145,000 – $175,000

[1] Modified adjusted gross income.

[2] These ranges also apply to married taxpayers filing separately, except that separate filers aren't eligible for the American Opportunity or Lifetime Learning credit or the student loan interest deduction.

[3] The phaseout is based on AGI rather than MAGI. The credit doesn't phase out altogether, but the minimum credit percentage of 20% applies to AGIs above $43,000.

But the $2,000 contribution limit is low, and it's phased out based on income. (See Chart 2.) Also, contributions can generally be made only for beneficiaries under age 18. When the beneficiary turns age 30, the ESA generally must be distributed, and any earnings may be subject to tax and a 10% penalty.

Education credits

If you have children in college now or are currently in school yourself, you may be eligible for a credit:

American Opportunity credit. This tax break covers 100% of the first $2,000 of tuition and related expenses and 25% of the next $2,000 of expenses. The maximum credit, per student, is $2,500 per year for the first four years of postsecondary education.

Lifetime Learning credit. If you're paying postsecondary education expenses beyond the first four years, you may benefit from the Lifetime Learning credit (up to $2,000 per tax return).

Warning: Income-based phaseouts apply to these credits. (See Chart 2.) If your income is too high for you to qualify, your child might be eligible.

Student loan breaks

If you're paying off student loans, you may be able to deduct up to $2,500 of interest (per tax return). An income-based phaseout applies. (See Chart 2.)

If your employer pays some of your student loan debt, you may be eligible to exclude up to $5,250 from income. (Student loan interest payments for which the exclusion is allowable can't be deducted.) This break is scheduled to expire after 2025.

2021's American Rescue Plan Act allows the tax-free treatment of student loan debt forgiven after Dec. 31, 2020, and before Jan. 1, 2026. (Forgiven debt otherwise is typically treated as taxable income.)

ABLE accounts

Achieving a Better Life Experience accounts offer a tax-advantaged way to fund qualified disability expenses for a beneficiary who became blind or disabled before age 26. For federal purposes, tax treatment is similar to that of 529 college savings plans.

Under the TCJA, through 2025, 529 plan funds can be rolled over to an ABLE account without penalty if the ABLE account is owned by the beneficiary of the 529 plan or a member of the beneficiary's family. Such rolled-over amounts count toward the ABLE account annual rollover and contribution limit ($16,000 for 2022).

Tax planning for investments involves many considerations

You need to understand the potential tax consequences of buying, holding and selling a particular investment. However, you shouldn't let tax considerations propel your investment decisions. So, as you buy and sell investments, be sure you also consider your investment goals, time horizon, risk tolerance, factors related to the investment itself, fees and charges that apply to buying and selling securities, and your need for cash.

Capital gains tax and timing

Although time, not timing, is generally the key to long-term investment success, timing can have a dramatic impact on the tax consequences of investment activities. Your marginal long-term capital gains rate can be as much as 20 percentage points lower than your ordinary-income tax rate.

The long-term gains rate applies to investments held for more than 12 months. The rate varies depending on your income and the type of assets. (See Chart 3.) Under the TCJA, current rates are scheduled to be in effect through 2025. Lawmakers could, however, make changes to the rates sooner.

Holding on to an investment until you've owned it more than one year may help substantially cut tax on any gain. But be sure to look at your specific situation, and keep an eye out for possible tax law changes.

Being tax-smart with losses

Losses aren't truly losses until they're realized — that is, generally until you sell the investment for less than what you paid for it. So while it's distressing to see an account statement that shows a large loss, the loss won't affect your current tax situation as long as you still own the investment.

Realized capital losses are netted against realized capital gains to determine capital gains tax liability. If net losses exceed net gains, you can deduct only $3,000 ($1,500 for married taxpayers filing separately) of losses per year against ordinary income (such as wages, self-employment and business income, interest, dividends, and taxable retirement plan distributions). But you can carry forward excess losses until death.

Chart 3 What's the maximum 2022 capital gains tax rate?

Type of gain	Rate[1]
Short-term (assets held 12 months or less)	Taxpayer's ordinary-income tax rate
Long-term (assets held more than 12 months)	15%
Some key exceptions	
Long-term gain of certain higher-income taxpayers	20%[2]
Most long-term gain that would be taxed at 10% or 12% based on the taxpayer's ordinary-income rate	0%
Long-term gain on collectibles, such as artwork and antiques	28%
Long-term gain attributable to certain recapture of prior depreciation on real property	25%

[1] In addition, the 3.8% net investment income tax (NIIT) applies to net investment income to the extent that modified adjusted gross income (MAGI) exceeds $200,000 (singles and heads of households), $250,000 (married filing jointly) or $125,000 (married filing separately).

[2] The 20% rate applies only to those with taxable income exceeding $459,750 (singles), $488,500 (heads of households), $517,200 (joint filers) or $258,600 (separate filers).

If you don't have enough gains to absorb losses, you could be left with losses in excess of the annual ordinary-income deduction limit. So think twice before selling an investment at a loss. After all, if you hold on to the investment, it may recover the lost value. In fact, a buy-and-hold strategy works well for many long-term investors because it can minimize the effects of market volatility. But in certain situations it can make sense to accumulate tax losses that you can carry forward to offset future gains. (See Case Study 2 on page 12.)

Mutual funds

Mutual funds with high turnover rates can create income that's taxed at ordinary-income rates. Choosing funds that provide primarily long-term gains can save you tax dollars because of the lower long-term rates.

Also pay attention to earnings reinvestments. Unless you or your investment advisor record increases in your tax basis accordingly, you may report more gain than required when you sell the fund. Brokerage firms are required to track (and report to the IRS) your cost basis in mutual funds acquired in recent years.

Finally, beware of buying equity mutual fund shares late in the year. These funds often make capital gains distributions toward year end. If you purchase shares before such a distribution, you'll end up with capital gains reportable on your tax return for the

year of the distribution. It doesn't matter whether the actual value of the shares has increased or even decreased since you purchased them, or whether you reinvest the proceeds back into the same fund.

Why? The distribution itself is a taxable event. If capital gains distributions from the mutual fund are reinvested in the fund, the distribution itself doesn't change your value in the fund. It simply increases the number of shares you own, yet now at a lower per-share value.

Income investments

Some types of investments produce income in the form of dividends or interest. Here are some tax consequences to consider:

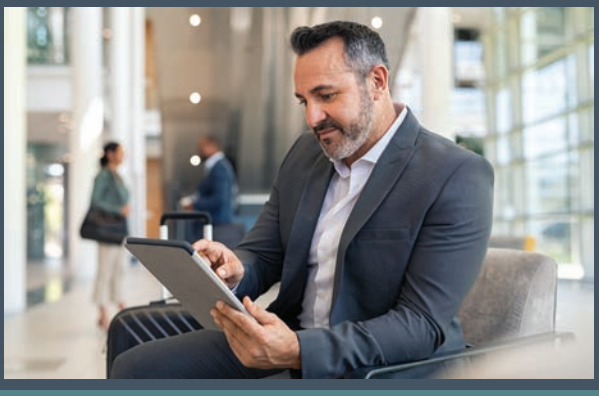
Dividend-producing investments. Qualified dividends are taxed at the favorable long-term capital gains tax rate rather than at your higher ordinary-income tax rate.

Case Study 2 — Sometimes building up tax losses for the future can be beneficial

Oscar has a large investment in his portfolio that seems to be on a downward spiral, with no sign of potential recovery. But he's reluctant to sell because his net capital losses for the year exceed the $3,000 he'll be able to deduct on his 2022 tax return.

Oscar talks to his tax advisor, who reminds him that tax considerations shouldn't be the primary driver of investment decisions. If Oscar is ready to divest himself of a poorly performing stock because he doesn't think its performance will improve or because his investment objective or risk tolerance has changed, he shouldn't hesitate solely for tax reasons.

Plus, building up losses for future use could be beneficial. This may be especially true for Oscar because he owns a closely held business that might generate substantial future gains. Building up losses could also be beneficial for taxpayers with large investment portfolios or real estate holdings — or if tax rates increase.



Interest-producing investments. Interest income generally is taxed at ordinary-income rates. So stocks that pay qualified dividends may be more attractive taxwise than other income investments, such as CDs and taxable bonds. But also consider nontax issues, such as investment risk, rate of return and diversification.

Bonds. These also produce interest income, but the tax treatment varies:

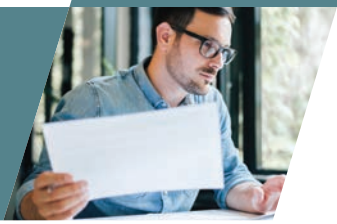
- Interest on U.S. government bonds is taxable on federal returns but exempt by federal law on state and local returns.
- Interest on state and local government bonds is excludable on federal returns. If the bonds were issued in your home state, interest also may be excludable on your state return.
- Tax-exempt interest from certain private-activity municipal bonds can trigger or increase the alternative minimum tax (AMT), but the AMT now occurs much more rarely.
- Corporate bond interest is taxable for federal and state purposes.
- Bonds (except U.S. savings bonds) with original issue discount build up "interest" as they rise toward maturity. You're generally considered to earn a portion of that interest annually — even though the bonds don't pay this interest annually — and you must pay tax on it.

3.8% NIIT

Taxpayers with modified adjusted gross income (MAGI) over $200,000 ($250,000 if married filing jointly and $125,000 if married filing separately) may owe the net investment income tax. The NIIT equals 3.8% of the lesser of your net investment income or the amount by which your MAGI exceeds the applicable threshold. Net investment income can include capital gains, dividends, interest, passive business income, rental income and other investment-related income (but not business or self-rental income from an active trade or business).

Many of the strategies that can help you save or defer income tax on your investments can also help you avoid or defer NIIT liability. And because the threshold for the NIIT is based on MAGI, strategies that reduce your MAGI could also help you avoid or reduce NIIT liability.

Don't let taxes unnecessarily drag down your bottom line



In 2022 some businesses are thriving while others are still struggling to recover from the pandemic and resulting economic challenges. Whatever your business's situation, take full advantage of available tax breaks to prevent taxes from dragging down your bottom line more than they should. And changes under the TCJA still demand attention, too.

Business structure

Income taxation and owner liability are the main factors that differentiate business structures. Many owners choose entities that combine pass-through taxation with limited liability, namely limited liability companies (LLCs) and S corporations.

The TCJA significantly changed the tax consequences of business structure. The now-flat corporate rate (21%) is substantially lower than the top individual rate (37%), providing sizable tax benefits to C corporations and mitigating the impact of double taxation on owners. (The new 15% corporate alternative minimum tax imposed by the Inflation Reduction Act [IRA] effective for tax years beginning after Dec. 31, 2022, applies only to the very largest C corporations.) But, the TCJA also introduced a powerful deduction for some owners of pass-through entities. (See below.)

Depending on your situation, a structure change may sound like a good idea. But keep in mind that increases to both the corporate rate and the top individual rate have been proposed. Even if there are no tax increases, a change could have unwelcome tax consequences. Consult your tax advisor if you'd like to explore whether a structure change could benefit you.

199A deduction for pass-through businesses

Through 2025, the TCJA provides the Section 199A deduction for sole proprietorships and owners of pass-through entities. The deduction generally equals 20% of qualified business income (QBI), not to exceed 20% of taxable income. QBI is generally defined as the net amount of qualified items of income, gain, deduction and loss that are connected with the conduct of a U.S. business.

Additional limits begin to apply if 2022 taxable income exceeds the applicable threshold — $170,050 or, if married filing jointly, $340,100. The limits fully apply when 2022 taxable income exceeds $220,050 and $440,100, respectively.

Chart 4 — 2022 income tax differences based on business structure

Flow-through entity or sole proprietorship	C corporation
One level of taxation: The business's income flows through to the owner(s).	Two levels of taxation: The business is taxed on income, and then shareholders are taxed on any dividends they receive.
Losses flow through to the owner(s).	Losses remain at the corporate level.
The top individual tax rate is 37%, but, for eligible taxpayers, up to 20% of qualified business income is deductible.	The flat corporate tax rate is 21%, and the top rate on qualified dividends is 20%.

One such limit is that the 199A deduction generally can't exceed the greater of the owner's share of:

- 50% of the amount of W-2 wages paid to employees by the qualified business during the tax year, or
- The sum of 25% of W-2 wages plus 2.5% of the cost of qualified property.

Another is that the 199A deduction generally isn't available for income from "specified service businesses." Examples include businesses that provide investment-type services and most professional practices (other than engineering and architecture).

Projecting income

Projecting your business's income for this year and next can allow you to time income and deductions to your advantage. It's generally — but not always — better to defer tax, so consider:

Deferring income to next year. If your business uses the cash method of accounting, you can defer billing for products or services at year end. If you use the accrual method, you can delay shipping products or delivering services.

Accelerating deductible expenses into the current year. If you're a cash-basis taxpayer, you may pay business expenses by Dec. 31, so you can deduct them this year rather than next. Both cash- and accrual-basis taxpayers can charge expenses on a credit card and deduct them in the year charged, regardless of when the credit card bill is paid.

Warning: Don't let tax considerations get in the way of sound business decisions. For example, the negative impact on your cash flow or customers may not be worth the tax benefit.

Taking the opposite approach. If your business is a pass-through entity and it's likely you'll be in a higher tax bracket next year, accelerating income and deferring deductible expenses may save you tax over the two-year period.

Depreciation

For assets with a useful life of more than one year, you generally must depreciate the cost over a period of years. In most cases, the Modified Accelerated Cost Recovery System (MACRS) will be preferable to other methods because you'll get larger deductions in the early years of an asset's life.

But if you make more than 40% of the year's asset purchases in the last quarter, you could be subject to the typically less favorable midquarter convention. Careful planning can help you maximize depreciation deductions in the year of purchase.

Other depreciation-related breaks and strategies may be available:

Section 179 expensing election. This allows you to currently deduct the cost of purchasing eligible new or used assets. Examples include equipment, furniture, off-the-shelf computer software, qualified improvement property and certain personal property used predominantly to furnish lodging. The following improvements to nonresidential real property are also eligible: roofs, HVAC equipment, fire protection and alarm systems, and security systems.

For qualifying property placed in service in 2022, the expensing limit is $1.08 million. The break begins to phase out dollar for dollar when asset acquisitions for the year exceed $2.7 million.

Bonus depreciation. This additional first-year depreciation is available for qualified assets. (See Case Study 3 to learn more.)

QIP deduction

The TCJA classified qualified retail-improvement, restaurant and leasehold-improvement property as qualified improvement property (QIP). Congress intended QIP placed in service after 2017 to have a 15-year MACRS recovery period and, in turn, qualify for 100% bonus depreciation. (See Case Study 3.) But, the statutory language didn't define QIP as 15-year property, so QIP defaulted to a 39-year recovery period, making it ineligible for bonus depreciation.

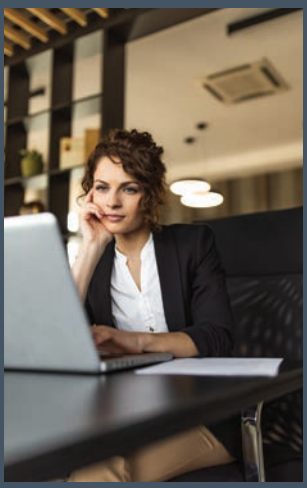
Fortunately, in 2020 the CARES Act included a technical correction to fix the QIP drafting error. Businesses that made qualified improvements from 2018 through 2021 can claim an immediate tax refund for any bonus depreciation they missed. Businesses investing in QIP in 2022 and beyond also can claim bonus depreciation going forward, according to the phaseout schedule.

Vehicle-related depreciation

Vehicle purchases may be eligible for Sec. 179 expensing, and buying a large truck or SUV can maximize the deduction. The normal Sec. 179 expensing limit (see page 16) generally applies to vehicles with a gross vehicle weight rating of more than 14,000 pounds. A $27,000 limit applies to vehicles (typically SUVs) rated at more than 6,000 pounds, but no more than 14,000 pounds.

Even if you prefer to buy a smaller vehicle, you can still potentially enjoy a valuable first-year deduction. Vehicles rated at 6,000 pounds or less are subject to the passenger vehicle limits; contact your tax advisor for details.

Case Study 3 — Taking advantage of 100% bonus depreciation while it's still available



Sara is working on a five-year plan for her business. One area she's focusing on is when she should purchase equipment and make other asset investments. Her tax advisor recommends that she factor bonus depreciation into her decision making.

This additional first-year depreciation is available for qualified assets, which include new tangible property with a recovery period of 20 years or less (such as office furniture and equipment), off-the-shelf computer software, and water utility property. Under the TCJA, through Dec. 31, 2026, the definition has been expanded to include used property and qualified film, television and live theatrical productions.

For qualified assets placed in service through Dec. 31, 2022, bonus depreciation is 100%. But, bonus depreciation is scheduled to be gradually reduced and eventually eliminated:

- 80% for 2023
- 60% for 2024
- 40% for 2025
- 20% for 2026
- 0% for 2027 and future years

(For certain property with longer production periods, these reductions are delayed by one year.)

Sara's tax advisor suggests that, to the extent that it otherwise makes strategic and financial sense for her business, she should consider accelerating her equipment and asset investments into 2022, while 100% bonus depreciation is available.

Warning: Under the TCJA, in some cases a business may not be eligible for bonus depreciation. Contact your tax advisor for details.

Case Study 4

Meals, entertainment and transportation: What's deductible?

Chris used to regularly claim business deductions for meal, entertainment, vehicle and travel expenses, as well as employee reimbursements of such expenses. Chris knew that the TCJA changed some of the rules related to these expenses and that there also were some more recent changes to the rules regarding meals, but wasn't 100% clear on the current rules. So the business owner consulted a tax advisor, who explained what's deductible and what's not:

Meals. Under the TCJA, business-related meal expenses, including those incurred while traveling on business, remain 50% deductible. But, the TCJA expanded the 50% disallowance rule to meals provided via an on-premises cafeteria or otherwise on the employer's premises for the convenience of the employer. (Such meals used to be 100% deductible.) However, some temporary relief generally increases the deduction to 100% for food and beverages provided by a restaurant in 2021 or 2022.

Entertainment. Under the TCJA, these expenses are no longer deductible.

Transportation. Employer deductions for providing commuting transportation (such as hiring a car service) aren't allowed under the TCJA, unless the transportation is necessary for the employee's safety. The TCJA also eliminated employer deductions for qualified employee transportation fringe benefits (for example, parking allowances, mass transit passes and van pooling). But, those benefits are still tax-free to recipient employees. Transportation expenses for business travel are still 100% deductible, provided they meet the applicable rules.

If you use a vehicle for business and personal purposes, the associated expenses, including depreciation, must be allocated between deductible business use and nondeductible personal use. **Warning:** If business use is 50% or less, you won't be able to use Sec. 179 expensing or the accelerated regular MACRS; you'll have to use the straight-line depreciation method.

Employee benefits

Offering a variety of benefits not only can help you attract and retain the best employees, but also may save tax because you generally can deduct your contributions:

Qualified deferred compensation plans. These include pension, profit-sharing, SEP and 401(k) plans, as well as SIMPLEs. (For information on the benefits to employees, see page 22.) Certain small employers may also be eligible for a tax credit when setting up a retirement plan.

Fringe benefits. Certain fringe benefits aren't included in employee income, yet the employer can still deduct the portion, if any, that it pays and typically also avoid payroll taxes. Examples are employee discounts, group term-life insurance (up to $50,000 per person) and health insurance.

Warning: You might be penalized for not offering health insurance. The Affordable Care Act can in some cases impose a penalty on "large" employers if they don't offer full-time employees "minimum essential coverage" or if the coverage offered is "unaffordable" or doesn't provide "minimum value."

HSAs, FSAs and HRAs. If you provide employees with a qualified high-deductible health plan (HDHP), you can also offer them Health Savings Accounts. (See page 5.) Regardless of the type of health insurance you provide, you can offer Flexible Spending Accounts for health care. (See page 5.) You can also offer FSAs for child and dependent care. (See page 6.)

A Health Reimbursement Account reimburses an employee for medical expenses up to a maximum dollar amount. Unlike an HSA, no HDHP is required. Unlike an FSA (other than when an exception applies), any unused portion can be carried forward to the next year. But only the employer can contribute to an HRA.

Interest expense deduction

Generally, under the TCJA, interest paid or accrued by a business is deductible only up to 30% of adjusted taxable income (ATI). Taxpayers with average annual gross receipts of $25 million or less for the three previous tax years generally are exempt from the limitation. Some other taxpayers are also exempt — check with your tax advisor for more information.

The CARES Act generally increased the interest expense deduction limit to 50% of ATI for the 2019 and 2020 tax years, but the TCJA's 30% deduction limit returned beginning in 2021, with tighter rules for 2022.

Loss deductions

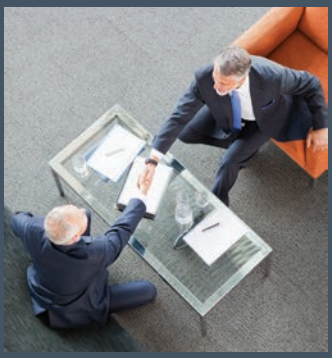
A loss occurs when a business's expenses and other deductions for the year exceed its revenue:

Net operating losses (NOLs). The TCJA generally reduces the amount of taxable income that can be offset with NOL deductions from 100% to 80%. It also generally prohibits NOLs from being carried back to an earlier tax year — but allows them to be carried forward indefinitely (as opposed to the previous 20-year limit). There was a temporary respite from the TCJA rules for NOLs arising in 2018 through 2020 tax years, but the rules generally returned for NOLs arising in 2021 or later.

Pass-through entity "excess" business losses. Through 2025, the TCJA applies a limit to deductions for current-year business losses incurred by noncorporate taxpayers: Such losses generally can't offset more than $250,000 ($500,000 for married couples filing jointly) of income from other sources, such as salary, self-employment income, interest, dividends and capital gains. (The limit is adjusted annually for inflation.) Excess losses are carried forward to later tax years and can then be deducted under the NOL rules.

Although the CARES Act temporarily lifted the limit, allowing taxpayers to deduct 100% of business losses arising in 2018, 2019 and 2020, it returned beginning in 2021. In addition, the IRA extended the limit through 2028.

Case Study 5 — Tax planning for a sale or acquisition



Steve is getting ready to sell his business, but before he puts it on the market, he wants to understand the potential tax consequences. His tax advisor provided a few key tax considerations:

Asset vs. stock sale. With a corporation, sellers typically prefer a stock sale for the capital gains treatment and to avoid double taxation. Buyers generally want an asset sale to maximize future depreciation write-offs.

Taxable sale vs. tax-deferred transfer. A transfer of ownership of a corporation can be tax-deferred if made solely in exchange for stock or securities of the recipient corporation in a qualifying reorganization. But the transaction must comply with strict rules. Although it's generally better to postpone tax, there are some advantages to a taxable sale:

- The seller doesn't have to worry about the quality of buyer stock or other business risks that might come with a tax-deferred transfer.
- The buyer benefits by receiving a stepped-up basis in its acquisition's assets.
- The parties don't have to meet the technical requirements of a tax-deferred transfer.

Installment sale. A taxable sale might be structured as an installment sale if the buyer lacks sufficient cash or pays a contingent amount based on the business's performance. An installment sale also may make sense if the seller wishes to spread the gain over a number of years — which could be especially beneficial if it would allow the seller to stay under the thresholds for triggering the 3.8% NIIT (see page 13) or the 20% long-term capital gains rate (see page 11).

But an installment sale can backfire on the seller. For example, depreciation recapture must be reported as gain in the year of sale, no matter how much cash the seller receives. And, if tax rates increase, the overall tax could wind up being more. Of course, tax consequences are only one of many important considerations when planning a merger or acquisition.

Tax credits

Tax credits reduce tax liability dollar for dollar, making them particularly beneficial. A couple of COVID-19-relief tax credits for businesses and other employers have expired, namely the employee retention credit and the paid leave credit. But there are still many other valuable tax credits available, such as these:

Research credit. This credit gives businesses an incentive to increase their investments in research. Certain start-ups (in general, those with less than $5 million in gross receipts) can, alternatively, use the credit against their payroll tax. While the credit is complicated to compute, the tax savings can prove significant.

Work Opportunity credit. This credit is designed to encourage hiring from various disadvantaged groups, such as certain veterans, ex-felons, the long-term unemployed and food stamp recipients. The maximum credit is generally $2,400 per hire but can be higher in some cases — up to $9,600 for certain veterans, for example. This credit is scheduled to expire Dec. 31, 2025.

New Markets credit. This gives investors who make "qualified equity investments" in certain low-income communities a 39% credit over a seven-year period. This credit is scheduled to expire Dec. 31, 2025.

Family and medical leave credit. The TCJA created a tax credit for qualifying employers that begin providing paid family and medical leave to their employees. The credit is equal to a minimum of 12.5% of the employee's wages paid during that leave (up to 12 weeks per year) and can be as much as 25% of wages paid. This credit is scheduled to expire Dec. 31, 2025.

Additional rules and limits apply to these credits. Other credits may also be available to you. Check with your tax advisor for more information.

The self-employed

If you're self-employed, you have to pay both the employee and employer portions of employment taxes on self-employment income. The employer portion is deductible "above the line," which means you don't have to itemize to claim the deduction.

In addition, you can deduct 100% of health insurance costs for yourself, and for a spouse and children, too. This above-the-line deduction is limited to net self-employment income. You also can take an above-the-line deduction for contributions to a retirement plan (see page 22) and, if eligible, an HSA (see page 5) for yourself.

If your home office is your principal place of business (or used substantially and regularly to conduct business) and that's the only use of the space, you probably can deduct home office expenses from your self-employment income.

Be tax-smart to turn your retirement dreams into reality

When it comes to retirement planning, tax considerations are key. For example, starting contributions early can make a big difference because of tax-deferred compounding. Determining whether traditional, Roth or a mix of accounts is best for your situation is also important. Finally, avoiding early withdrawals and being tax-smart with required minimum distributions are critical to being able to live your desired retirement lifestyle.

401(k)s and other employer plans

Contributing to a traditional employer-sponsored defined contribution plan is usually a good first step:

- Contributions are typically pretax, reducing your taxable income.
- Plan assets can grow tax-deferred — meaning you pay no income tax until you take distributions.
- Your employer may match some or all of your contributions.

Chart 5 shows the 2022 employee contribution limits. Because of tax-deferred compounding, increasing your contributions sooner rather than later can have a significant impact on the size of your nest egg at retirement. Employees age 50 or older can also make "catch-up" contributions. If your employer offers a match, contribute at least the amount necessary to get the maximum match so you don't miss out on that "free" money.

Chart 5 Retirement plan contribution limits for 2022

	Regular contribution	Catch-up contribution[1]
Traditional and Roth IRAs	$ 6,000	$1,000
401(k)s, 403(b)s, 457s and SARSEPs[2]	$20,500	$6,500
SIMPLEs	$14,000	$3,000

[1] For taxpayers age 50 or older by the end of the tax year.

[2] Includes Roth versions where applicable.

Note: *Other factors may further limit your maximum contribution.*

More tax-deferred options

In certain situations, other tax-deferred saving options may be available:

You're a business owner or self-employed. You may be able to set up a plan that allows you to make much larger contributions than you could make to an employer-sponsored plan as an employee. You might not have to make 2022 contributions, or even set up the plan, before year end.

Your employer doesn't offer a retirement plan. Consider a traditional IRA. You can likely deduct your contributions, though your deduction may be limited if your spouse participates in an employer-sponsored plan. You can make 2022 contributions until the 2022 income-tax-return-filing deadline for individuals, not including extensions. (See Chart 5 for the annual contribution limits.)

Roth alternatives

A potential downside of tax-deferred saving is that you'll have to pay taxes when you make withdrawals at retirement. Roth plans, however, allow tax-free distributions; the tradeoff is that your contributions don't reduce your current-year taxable income:

Roth IRAs. An income-based phaseout may reduce or eliminate your ability to contribute. But estate planning advantages are an added benefit: Unlike other retirement plans, Roth IRAs don't require you to take distributions during your lifetime, so you can let the entire balance grow tax-free for the benefit of your heirs.

Roth conversions. If you have a traditional IRA, a partial or full conversion to a Roth IRA can allow you to turn tax-*deferred* future growth into tax-*free* growth and take advantage of a Roth IRA's estate planning benefits. The converted amount is taxable in the year of the conversion. Discuss with your tax advisor whether a conversion makes sense for you.

"Back door" Roth IRA contributions. If your income is too high to make Roth IRA contributions and you don't have funds in a traditional IRA, consider setting up a traditional account and making a nondeductible contribution to it. You can then immediately convert the contributed amount to a Roth account with minimal or no tax impact. But be aware that eliminating this option for higher-income taxpayers has been proposed.

Roth 401(k), Roth 403(b) and Roth 457 plans. Employers may offer one of these in addition to the traditional, tax-deferred version. No income-based phaseout applies, so even higher-income taxpayers can contribute.

Early withdrawals

Early withdrawals from retirement plans should be a last resort. With a few exceptions, distributions before age 59½ are subject to a 10% penalty on top of any income tax that ordinarily would be due on a withdrawal. Additionally, you'll lose the potential tax-deferred future growth on the withdrawn amount.

If you must make an early withdrawal and you have a Roth account, consider withdrawing from that. You can withdraw up to your contribution amount without incurring taxes or penalties.

Another option: If your employer-sponsored plan allows it, take a plan loan. You'll have to pay it back with interest and make regular principal payments, but you won't be subject to current taxes or penalties. (You can't borrow from an IRA.)

Early distribution rules also become important if you change jobs or retire. (See Case Study 6.)

Warning: If you took an eligible COVID-19 distribution in 2020 under the CARES Act and haven't yet recontributed the amount or paid all the tax on it, discuss your options with your tax advisor.

RMDs

Historically, after reaching age 70½, taxpayers have had to begin taking annual required minimum distributions from their IRAs (except Roth IRAs) and, generally, from any defined contribution plans. However, the age has increased to 72 for taxpayers who didn't turn age 70½ before Jan. 1, 2020 (that is, who were born after June 30, 1949).

If you don't comply with RMD rules, you can owe a penalty equal to 50% of the amount you should have withdrawn but didn't. You can avoid the RMD rule for a non-IRA Roth plan by rolling the funds into a Roth IRA.

Waiting as long as possible to take distributions generally is advantageous because of tax-deferred compounding. But a distribution (or larger distribution) in a year your tax bracket is low may save tax. Be sure, however, to consider the lost future tax-deferred growth and, if applicable, whether the distribution could: 1) cause Social Security payments to become taxable, 2) increase income-based Medicare premiums and prescription drug charges, or 3) affect tax breaks with income-based limits.

Case Study 6

Avoiding retirement plan pitfalls when leaving a job

Justin and Matthew both change jobs in 2022 and decide to roll over funds from their traditional 401(k) plans with their former employers to traditional IRAs so that they'll have more investment choices. Each has a balance of $100,000. Justin requests a direct rollover from his old plan to his IRA. Because he never personally receives the funds, he owes no income tax or penalties.

Matthew, however, doesn't request a direct rollover. Instead, he receives a lump-sum check. Much to his surprise, the check is for only $80,000, because his employer withheld 20% for federal income taxes.

After consulting a tax advisor, Matthew learns that he needs to make an indirect rollover to his IRA within 60 days to avoid tax and potential penalties. (He may be able to receive a refund of the $20,000 withheld when he files his 2022 tax return, depending on his overall tax liability for the year.)

Matthew also learns that if he doesn't roll over the gross amount of $100,000 — which will require him to make up for the withheld amount with other funds — he'll be subject to income tax on the $20,000 difference. And, because he's under age 59½, he'll also owe the 10% early withdrawal penalty.

If you've inherited a retirement plan, consult your tax advisor about the distribution rules that apply to you. **Warning:** The time period for distributions has been reduced to 10 years for beneficiaries — other than surviving spouses and certain others — inheriting plans after Dec. 31, 2019.

IRA donations to charity

Taxpayers age 70½ or older are allowed to make direct contributions from their IRA to qualified charitable organizations up to $100,000 per tax year. A charitable deduction can't be claimed for the contributions. But the amounts aren't included in taxable income and can be used to satisfy an IRA owner's RMD. A direct contribution might be especially tax-smart if you won't benefit from the charitable deduction. (See "What's new!" on page 4.)

Locking in tax savings while you can

Because the TCJA has put estate, gift and generation-skipping transfer (GST) tax exemptions at record-high levels, far fewer taxpayers are worrying about these taxes. But the high exemptions are only temporary. So whether or not you'd be subject to estate taxes under the current exemptions, it's a good idea to consider whether you can seize opportunities to potentially lock in tax savings today.

Estate tax

While the TCJA keeps the estate tax rate at 40%, it has doubled the exemption base amount from $5 million to $10 million. The inflation-adjusted amount for 2022 is $12.06 million. (See Chart 6.)

Without further legislation, the estate tax exemption will return to an inflation-adjusted $5 million in 2026. So taxpayers with estates in the roughly $6 million to $12 million range (twice that for married couples), whose estates would escape estate taxes if they were to die while the doubled exemption is in effect, still need to keep potential post-2025 estate tax liability in mind. Plus, it's possible the exemption could be reduced sooner.

Gift tax

The gift tax continues to follow the estate tax, so the gift tax exemption also has increased under the TCJA. (See Chart 6.) Any gift tax exemption used during your lifetime reduces the estate tax exemption available at death. Using up some of your exemption during your lifetime can be tax-smart, especially if your estate might exceed roughly $6 million (twice that if you're married).

Under the annual exclusion, you also can exclude certain gifts of up to $16,000 per recipient in 2022 ($32,000 if your spouse elects to split the gift with you or you're giving joint or community property) without depleting any of your gift and estate tax exemption.

Warning: Each year you need to use your annual exclusion by Dec. 31. The exclusion doesn't carry over from year to year. For example, if you don't make an annual exclusion gift to your grandson this year, you can't add $16,000 to your 2023 exclusion to make a $32,000 tax-free gift to him next year.

GST tax

The GST tax generally applies to transfers (both during your lifetime and at death) made to people more than one generation below you, such as your grandchildren. This is in addition to any gift or estate tax due. The GST tax exemption also has increased under the TCJA. (See Chart 6.)

The GST tax exemption can be a valuable tax-saving tool for taxpayers with large estates whose children also have — or may eventually have — large estates. With proper planning, they can use the exemption to make transfers to grandchildren and avoid any tax at their children's generation.

State taxes

Even before the TCJA, some states imposed estate tax at a lower threshold than the federal government did. Now the differences in some states are even more dramatic. To avoid unexpected tax liability or other unintended consequences, consult a tax advisor familiar with the law of your particular state.

Exemption portability

If part (or all) of one spouse's estate tax exemption is unused at that spouse's death, the estate can elect to permit the surviving spouse to use the deceased spouse's remaining exemption. This exemption "portability" provides flexibility at the first spouse's death, but it has some limits. Portability is available only from the most recently deceased spouse, doesn't apply to the GST tax exemption and isn't recognized by many states.

And portability doesn't protect future growth on assets from estate tax like applying the exemption to a credit shelter (or bypass) trust does. Such a trust also offers creditor and remarriage protection, GST tax planning, and possible state estate tax benefits.

So married couples should still consider these trusts — and consider transferring assets to each other as necessary to fully fund them at the first death. Transfers to a spouse (during life or at death) aren't subject to gift or estate tax as long as the recipient spouse is a U.S. citizen.

Chart 6 2022 transfer tax exemptions and rates

	Estate tax	Gift tax	GST tax
Exemption	$12.06 million[1]	$12.06 million	$12.06 million
Rate	40%	40%	40%

[1] Less any gift tax exemption already used during life.

Tax-smart giving

Giving away assets now will help reduce the size of your taxable estate. Here are some strategies for tax-smart giving:

Choose gifts wisely. Consider both estate and income tax consequences and the economic aspects of any gifts you'd like to make:

- To minimize *estate tax,* gift property with the greatest future appreciation potential.
- To minimize *your beneficiary's income tax,* gift property that hasn't appreciated significantly while you've owned it.
- To minimize *your own income tax,* don't gift property that's declined in value. Instead, consider selling the property so you can take the tax loss and then gifting the sale proceeds.

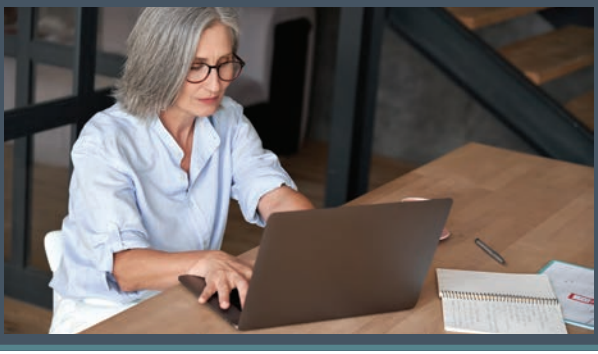
Case Study 7 — Taking advantage of valuation discounts

Anita had been planning to begin succession planning for her business in about 10 years. But with the events of the last few years, she decided she should start planning sooner. When she met with her tax and estate planning advisors, they recommended that she begin leveraging her gift tax exclusions and exemption by gifting ownership interests, which may be eligible for valuation discounts. So, for example, in 2022 Anita could gift an ownership interest worth up to as much as $21,333 (on a controlling basis) tax free, assuming a combined discount of 25%. That's because the discounted value wouldn't exceed the $16,000 annual exclusion.

If her business has declined in value because of economic uncertainty, a silver lining is that Anita may be able to transfer an even larger portion of her business tax-free.

But she doesn't want to transfer ownership interests to her children who aren't active in the business. Her advisors suggest that she can still potentially benefit from valuation discounts on transfers of other assets to them by setting up a family limited partnership (FLP). She can fund the FLP with public stock and real estate, and then gift limited partnership interests.

Anita's advisors warn her that the IRS may challenge valuation discounts; they recommend a professional, independent valuation. The IRS also scrutinizes FLPs, so she must be sure to properly set up and operate hers.



Plan gifts to grandchildren carefully. Annual exclusion gifts are generally exempt from the GST tax, so they also help you preserve your GST tax exemption for other transfers. For gifts to a grandchild that don't qualify for the exclusion to be tax-free, you generally must apply both your GST tax exemption and your gift tax exemption.

Pay tuition and medical expenses. You may pay these expenses without the payment being treated as a taxable gift to the student or patient, as long as the payment is made directly to the provider.

Make gifts to charity. Donations to qualified charities aren't subject to gift tax. They may also be eligible for an income tax deduction. (See "What's new!" on page 4.)

Consider "taxable" gifts. Making some gifts beyond annual exclusion gifts and using some or all of your lifetime exemption can make sense if you have a large estate. These "taxable" gifts can protect transfers from gift and estate tax, even if the exemption drops in the future. They also remove the future appreciation from your estate.

You do, however, need to keep in mind your beneficiaries' income tax. Gifted assets don't receive the "step-up" in basis that bequeathed assets do. This means that, if beneficiaries sell assets gifted to them, their taxable capital gains will be determined based on *your* basis in the assets. So their capital gains tax could be higher than if they inherited the same assets.

Trusts

Trusts can provide a way to transfer assets and potentially enjoy tax savings while preserving some control over what happens to the transferred assets. For those with large estates, funding trusts now, while the gift tax exemption is high, may be particularly tax-smart. Here are some types of trusts to consider:

A qualified personal residence trust (QPRT). It allows you to give your home to your children today — removing it from your taxable estate at a reduced gift tax cost (provided you survive the trust's term) — while you retain the right to live in it for a specified period.

A grantor-retained annuity trust (GRAT). It works on the same principle as a QPRT, but allows you to transfer other assets; you receive payments back from the trust for a specified period.

A GST — or "dynasty" — trust. It can help you leverage both your gift and GST tax exemptions. And it can be an excellent way to potentially lock in the currently high exemptions while removing future appreciation from your estate.

What's your marginal tax rate?

Your marginal tax rate is the rate you'll pay on your next dollar of income, so in your planning it's important to know what it likely will be. As of this writing, increases to the corporate rate and the top individual rate have been proposed. Check with your tax advisor for the latest information.

Pay attention to thresholds

The TCJA replaced graduated tax rates for corporations with one flat rate. (See Chart 7.) When businesses are structured as pass-through entities, income is taxed at the owners' individual rates. (See Chart 9.)

For individuals, the taxable income thresholds vary significantly based on filing status. (See Chart 9.) The thresholds for estates and trusts are much lower. (See Chart 8.) There are also alternative minimum tax (AMT) rates to consider. (See Chart 9.)

The AMT is a separate tax system that disallows some deductions and treats certain income items differently. You must pay the AMT if your AMT liability exceeds your regular tax liability. Because of TCJA changes such as the reduction or elimination of many itemized deductions and a substantial increase to the AMT exemptions, far fewer taxpayers are subject to AMT risk now.

Chart 7 2022 corporate income tax rates

Tax rate	Type of corporation
21%	C corporation
21%	Personal service corporation

Chart 8 2022 estate and trust income tax rates

Tax rate	Tax brackets
10%	$ 0 – $ 2,750
24%	$2,751 – $ 9,850
35%	$9,851 – $13,450
37%	Over $13,450

Chart 9 2022 individual income tax rates

Regular tax brackets		
Tax rate	**Single**	**Head of household**
10%	$ 0 – $ 10,275	$ 0 – $ 14,650
12%	$ 10,276 – $ 41,775	$ 14,651 – $ 55,900
22%	$ 41,776 – $ 89,075	$ 55,901 – $ 89,050
24%	$ 89,076 – $170,050	$ 89,051 – $170,050
32%	$170,051 – $215,950	$170,051 – $215,950
35%	$215,951 – $539,900	$215,951 – $539,900
37%	Over $539,900	Over $539,900
Tax rate	**Married filing jointly or surviving spouse**	**Married filing separately**
10%	$ 0 – $ 20,550	$ 0 – $ 10,275
12%	$ 20,551 – $ 83,550	$ 10,276 – $ 41,775
22%	$ 83,551 – $178,150	$ 41,776 – $ 89,075
24%	$178,151 – $340,100	$ 89,076 – $170,050
32%	$340,101 – $431,900	$170,051 – $215,950
35%	$431,901 – $647,850	$215,951 – $323,925
37%	Over $647,850	Over $323,925

Alternative minimum tax (AMT) brackets		
Tax rate	**Single**	**Head of household**
26%	$ 0 – $206,100	$ 0 – $206,100
28%	Over $206,100	Over $206,100
Exemption	$ 75,900	$ 75,900
Phaseout[1]	$539,900 – $843,500	$539,900 – $843,500

Note: *Consult your tax advisor for AMT rates and exemptions for children subject to the "kiddie tax" and for estates and trusts.*

Tax rate	**Married filing jointly or surviving spouse**	**Married filing separately**
26%	$ 0 – $ 206,100	$ 0 – $103,050
28%	Over $ 206,100	Over $103,050
Exemption	$ 118,100	$ 59,050
Phaseout[1]	$1,079,800 – $1,552,200	$539,900 – $776,100

[1] The AMT income ranges over which the exemption phases out and only a partial exemption is available. The exemption is completely phased out if AMT income exceeds the top of the applicable range.

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