2022 YEAR-END TAX PLANNING

THE NASH GROUP P.S.,
CERTIFIED PUBLIC ACCOUNTANTS

Dear Clients and Friends,

With the end of 2022 rapidly approaching, now is the time to review your income tax situation and take steps to ensure that you are taking full advantage of the many tax planning strategies available.

First, keep in mind that effective tax planning encompasses both this year and next year at a minimum. By considering multiple years, we can help ensure that planning strategies intended to save taxes on your 2022 return will not end up costing you additional money in the future.

Below are a few tax-saving ideas for you to consider. After you have had a chance to review the items below, please give us a call to make sure you are doing all you can to minimize your tax exposure heading into the new year.

YEAR-END INVESTMENT PLANNING TIPS

With the stock market's bumpy year so far, this is a great time to review your investment portfolio. Think about selling some losers to offset gains from any sold winners. Additional excess capital losses can be used to offset up to $3,000 of other income. Losses greater than $3,000 are then carried over to the next year and can help offset future capital gains.

Depending on your taxable income, the 2022 federal income tax rates on long-term capital gains and qualified dividends are 0%, 15%, and 20%. High-income individuals can also be subject to the 3.8% NIIT (net investment income tax) which can result in a marginal long- term capital gains/qualified dividend tax rate as high as 23.8%. Still, that is a much better rate than the top regular tax rate of 37% (40.8% if the NIIT applies). To minimize your taxes, consider the following:

HOLDING PERIOD FOR FAVORABLE RATES - If possible, try to hold appreciated securities for a minimum of one year and one day to qualify for the more favorable long-term capital gains rates. Remember, short term stock sales are taxed at regular rates (up to 40.8%!!!)

BE STRATEGIC - Use specific identification or standing orders, instead of the default first-in, first-out method, to identify the stock or mutual fund shares to be sold. Selecting the highest basis shares, even if held one year or less, can minimize your capital gains taxes in certain situations.

Be aware when buying a mutual fund late in the year for your taxable portfolio. When investing in a dividend-paying mutual fund near year-end, be sure to check its dividend distribution schedule. Buying a fund shortly before the record date this year means you will get the dividend payout for 2022, which you will owe tax on when you file your return next year. You aren't better off financially, however, because the fund's share price falls by the amount of the distributed dividend. To avoid this, think about buying the mutual fund after the dividend record date.

HARVEST CAPITAL LOSSES - Be sure to avoid Wash Sales! So long as the same or similar investments are not acquired within 30 days of the sale, the loss can be used to offset capital gains. If capital losses exceed capital gains, up to $3,000 of capital losses per year can be used to offset other income (the rest is carried forward to the following year).

TAKE ADVANTAGE OF A 0% FEDERAL RATE ON LONG-TERM CAPITAL GAINS - If your taxable income is less than $81,050 married filing joint, $40,525 single, or $54,200 head of household, any long-term capital gains are taxed at a 0% federal rate.

SECURE A DEDUCTION FOR NEARLY WORTHLESS SECURITIES - If you own securities (stocks) that are nearly worthless with little chance of recovery, sell them before year-end so that you can deduct the loss in the current year. Do not sell the investments to a related party, which would result in a disallowance of the loss.

CONSIDER CONVERTING TRADITIONAL IRAS INTO ROTH IRAS - Conversions can be beneficial for many reasons, including when an individual would not pay federal income tax on the conversion or expects to be in the same or higher tax bracket in retirement. With tax rates at relatively low levels, now might be the time to convert part or all your Traditional IRAs to Roth IRAs. Keep in mind that these conversions may be taxable. **Please call us before you do this!**

CHECK YOUR BENEFICIARY DESIGNATIONS - Retirement plans, pensions, IRAs, life insurance policies, annuities, payable on death accounts, and certain other accounts transfer to the beneficiaries designated on the respective account forms. These designations have priority over designations in wills, trusts, etc. Be sure your beneficiary designations are up to date, especially if you have experienced a significant life event such as marriage, divorce, the birth of a child, etc.

NONBUSINESS PLANNING TIPS

GIFT APPRECIATED STOCK - If you have appreciated stock that you have held for more than a year and you plan to make significant charitable contributions; keep your cash and **donate the stock** instead. You will avoid paying tax on the appreciation and will be able to deduct the donated property's full value. If you want to maintain a position in the donated securities, you can immediately buy back a like number of shares.

On the other hand, if the stock is now worth less than when you acquired it, sell the stock, take the loss, and then give the cash to the charity. Keep in mind that if you sell the stock at a loss, you cannot immediately buy it back as this will trigger the Wash Sale rules, which will disallow any loss and instead add the difference to the basis in the new stocks purchased.

MAXIMIZE THE BENEFIT OF THE STANDARD DEDUCTION - For 2022, the standard deduction is $25,900 for married filing joint, $12,950 for single, and $19,400 for head of household. If your total itemized deductions are normally close to these amounts, you may be able to maximize the benefit of your deductions by bunching deductions every other year. This allows you to time your itemized deductions so that they are high in one year and low in the next. For instance, you might consider moving charitable donations or state tax payments you normally would make in 2023 to 2022. However, be careful with the timing of state and local tax payments as the maximum amount you can deduct for state and local taxes is now $10,000 per year ($5,000 if married filing separate).

ABOVE-THE-LINE DEDUCTION FOR CHARITABLE DONATIONS - In 2021 individuals who didn't itemize were allowed an above-the-line deduction of up to $600 for married filing joint and $300 for all others. That deduction is not currently available for 2022.

TAKE ADVANTAGE OF YOUR ANNUAL GIFT EXCLUSION - Individuals can give up to $16,000 to each person this year without having to tap your lifetime estate and gift tax exemption, pay gift tax or file a gift tax return. The recipient is not taxed on the amount received. Spouses can also give $16,000. For Example: You're married with two kids and one grandkid. You can give each relative up to $32,000 ($96,000 total) this year in excludable gifts. Annual gifts over the exclusion amount will trigger filing of a gift tax return for 2022, but no federal gift tax will be due unless your total lifetime gifts exceed $12,060,000.

OTHER WAYS TO HELP KIDS AND GRANDKIDS - Pay tuition directly to the school. The payment is nontaxable to the student, it doesn't count against the $16,000 gift tax exclusion, and it reduces your estate.

Contribute to a 529 plan. Individuals can shelter from gift tax up to $80,000 in contributions per beneficiary this year. You can double that amount by having each spouse contribute to the plan. If you put in the maximum, you'll be treated as gifting $16,000 (or $32,000) to that beneficiary in 2022 and in each of the next four years.

SENIORS AGE 70 ½+ PLANNING TIPS

MAKE CHARITABLE DONATIONS DIRECTLY FROM YOUR IRA - Planning for the day when you will be required to take RMD (required minimum distributions) from your retirement accounts, many times it can feel like you are being forced to take more income than you need or want. One option for lowing your taxable income is to make cash donations totaling up to $100,000 per individual IRA owner per year to IRS-approved charities directly from your IRA ($200,000 per year maximum on a joint return if both spouses make Qualified Charitable Distributions [QCDs] of $100,000). QCDs are not treated as taxable distributions, and you receive no itemized deduction for the contribution.

QCDs have many potential tax benefits such as reducing your Adjusted Gross Income (which may decrease the phase- out of other tax benefits and reduce the amount of your Social Security benefits that are taxable), receiving a state tax benefit where you otherwise would not, and effectively allowing you to deduct charitable contributions and claim the standard deduction on the same return. If you decide to make a QCD, be sure to transfer the funds directly from your IRA to the charity.

TAKE YOUR REQUIRED MINIMUM DISTRIBUTIONS - Individuals with retirement accounts must generally take withdrawals based on the size of their account and their age every year after they reach age 72 (70 ½ if born before July 1, 1950). Failure to take a required withdrawal can result in a penalty of 50% of the amount not withdrawn. QCDs discussed above count as payouts for purposes of the required distribution rules. This means you can donate all or part of your 2022 required distribution (up to the $100,000 per individual IRA owner limit on QCDs) and convert taxable required distributions into tax-free QCDs.

If you turned age 72 in 2022 (70 ½ if born before July 1, 1950) you can delay your 2022 required distribution until April 1, 2023. However, waiting until 2023 will result in two distributions in 2023 (the amount required for 2022 plus the amount required for 2023). While deferring income is normally a sound tax strategy, here it results in bunching income into 2023, which might throw you into a higher tax bracket or have a detrimental impact on your tax deductions.

BUSINESS PLANNING TIPS

THE EMPLOYEE RETENTION CREDIT - Our firm is actively working with clients to amend payroll forms for the first three quarters of 2021. The Employee Retention Credit (ERC) is generally available to small businesses that continued to pay employees during a quarter in which the business experienced a significant decline in gross receipts (greater than a 20% decrease when compared to the same quarter in 2019 or if the immediately prior quarter had a significant decline in gross receipts) or during a time when subject to a complete or partial suspension of operations due to a government order related to COVID. The credit can be significant, up to 70% of qualifying wages per employee per quarter with a $7,000 per employee per quarter limit.

The ERC is also available for 2020 wages paid, although the gross receipts decline threshold is higher and the credit percentage and maximum credit per employee are lower. The credit for 2021 and 2020 can be claimed now if not claimed on the original returns.

Also keep in mind that the ERC is not available for those wages covered by Paycheck Protection Program (PPP) loan proceeds. PPP forgiveness requires 60% of those proceeds to have been used on qualified wages. We can assist with calculating the amount of ERC you can claim if you have taken PPP and are interested in taking ERC as well.

MAXIMIZE THE DEDUCTION FOR PASS-THROUGH BUSINESS INCOME - For tax year 2022, the deduction could be up to 20% of a pass-through entity owner's qualified business income (QBI). There are restrictions that could apply when taxable income from all sources exceeds $329,800 if married filing joint and $164,900 for all others. For pass-through entity owners subject to the restrictions, it is extremely important to manage taxable income to maximize the deduction.

The deduction can also be claimed for up to 20% of income from qualified REIT dividends and publicly traded partnerships. For purposes of this deduction, pass- through entities are defined as sole proprietorships, partnerships, S corporations, and LLCs that are treated as one of the former for tax purposes.

Finally, the IRS has clarified that rental properties in general could rise to the definition required to be claimed as QBI eligible income. The deduction is only available to individuals, trusts, and estates. Because of the various limitations and restrictions on the deduction, other tax planning moves can have a positive or negative effect on your allowable deduction.

PURCHASING EQUIPMENT, SOFTWARE, AND CERTAIN REAL PROPERTY ACQUIRED AND PLACED IN SERVICE DURING 2022 -

- 2022 is the last year your business can claim first-year bonus depreciation equal to 100% of the cost of most new and used equipment and software placed in service by December 31 of this year. Beginning in 2023 the deduction will be limited to 80%, and then the amount will decline by 20% each year thereafter.

- Heavy SUVs, pickups, and vans with a Gross Vehicle Weight Rating above 6,000 pounds also qualify for 100% bonus depreciation. For cars, light trucks, and light vans subject to the luxury auto depreciation limits, the annual limits, including bonus depreciation, were increased to $19,200 in year 1, $18,000 in year 2, $10,800 in year 3, and $6,460 for year 4 and beyond.

- For assets used for both business and personal purposes, an effective planning strategy is to maximize the business use during the year of acquisition. For example, a $60,000 heavy SUV placed in service in December 2021 and used 95% for business could generate a $57,000 deduction for 2022, even if the business use is less than 95% in future years. However, the business use must remain above 50% in all future years to avoid having to recapture the accelerated depreciation as income. Remember, the same vehicle purchased in January will only give you a $45,600 deduction under current rules.

- Under Section 179, an eligible business can claim significant first-year depreciation for the cost of new and used equipment, software additions, and qualifying real property. Qualifying real property is any improvement to the interior portion of a nonresidential building that is placed in service after the date the building is first placed in service, except for expenditures attributable to the enlargement of the building, any elevator, or escalator, or the building's internal structural framework. Qualifying real property also includes roofs, HVAC equipment, fire protection and alarm systems, and security systems for nonresidential real property if placed in service after the nonresidential building was placed in service. For tax years beginning in 2022, the maximum Section 179 deduction is $1,080,000. This amount is reduced to the extent qualified purchases exceed $2,700,000. If your business has a tax loss for the year before considering any Section 179 deduction, you cannot claim a Section 179 deduction.

BUSINESS SALES TAX NEXUS FOR MULTI-STATE BUSINESSES - In the 2018 U.S. Supreme Court decision in Wayfair the physical presence standard that had been in place for decades was overturned. This decision allows states to require out-of-state businesses to collect and remit sales tax on sales into those states, even if the business does not have any physical presence in the state. Many states have since adopted economic nexus standards that require out-of-state businesses to collect sales tax if there are more than a certain number of transactions or sales into the state. Those thresholds are generally 200 transactions and/or $100,000 - $500,000 of sales but can be more or less depending on the state. The Wayfair decision could also have an impact on income tax nexus.

REVIEW AND UPDATE ACCOUNTING POLICY FOR EXPENSING SMALL-DOLLAR EQUIPMENT AND FIXED ASSET PURCHASES - The IRS generally allows taxpayers to expense equipment and fixed assets up to $2,500 per item using the de minimis safe harbor. The de minimis safe harbor requires that an accounting policy be established at the beginning of the tax year that requires items costing less than a certain dollar amount or lasting less than 12 months to be expensed for both book and tax purposes. The accounting policy does not have to be written.

CHECK YOUR PARTNERSHIP AND S CORPORATION STOCK BASIS - Partnership and S corporation losses are limited to your basis in those shares/ stocks. Careful planning should be used if your partnership or S corporation is going to have losses and you wish to take distributions. Furthermore, even though any unused losses can be carried forward indefinitely, the time value of money (essentially a dollar is worth more today than a promise for a dollar in the future) diminishes the benefit of these suspended deductions. If you expect the partnership or S-corporation to generate a loss this year and you lack sufficient basis to claim a full deduction, you should consider making a capital contribution or loan additional funds to the business before year-end.

EMPLOY YOUR CHILD - Employing your child provides several tax benefits. By shifting income from you to your child you can shift income to a lower tax bracket. You could potentially avoid income tax entirely if their taxable income is below the standard deduction, which could be as high as $12,500 for 2021. If your child is younger than 17 there are additional payroll tax savings since wages paid by sole proprietors to their children age 17 and younger are exempt from both social security and unemployment taxes.

Employing your children has the added benefit of providing them with earned income, which enables them to contribute to a traditional or Roth IRA. Remember a couple of things when employing your child. First, the wages paid must be reasonable given the child's age and work skills. You should maintain contemporaneous records for time worked and wages paid. Second, if the child is in college, or is entering soon, be sure to consider the impact of wages on the student's need-based financial aid eligibility.

C CORPORATION DIVIDENDS - Shareholders in C corps should weigh taking dividends in lieu of salary if the owner is in a high tax bracket. The owner's preferential tax rate on dividends plus the corporation's payroll tax savings from paying dividends instead of salaries can exceed the firm's forgone tax benefit from not being able to deduct the dividend. This doesn't work for S corporations since their income passes through to owners.

HEALTH CARE COSTS AND COVERAGE PLANNING TIPS

TAKE ADVANTAGE OF FLEXIBLE SPENDING ACCOUNTS (FSAS) - If your company offers an FSA, you must specify how much of your salary to convert as pre-tax contributions to the plan. You then take tax-free withdrawals in the following year to reimburse yourself for out-of-pocket medical and dental expenses and qualifying dependent care costs. Beware, FSAs are "use- it-or-lose-it" accounts. Careful planning is needed so you do not set aside more than you will likely have in qualifying expenses for the year. If you currently have an FSA, be sure to spend it by incurring eligible expenses before the deadline for your plan.

CONSIDER A HEALTH SAVINGS ACCOUNT (HSA) - If you are enrolled in a qualified high-deductible health plan you may be eligible to make pre-tax or tax-deductible contributions to an HSA of up to $7,300 for family coverage or $3,650 for individual coverage. (Taxpayers over 55 by the end of year can add an extra $1,000). Distributions from the HSA used to pay unreimbursed qualified medical expenses are tax free. Unlike the FSA there is no time limit on when you can use your contributions to cover expenses. Any amounts remaining in the HSA at the end of the year can be carried over indefinitely.

MANAGE YOUR ADJUSTED GROSS INCOME (AGI)

Many tax deductions and credits are only available to taxpayers with AGI below certain levels. Some common AGI-based tax breaks include the child tax credit (phase-out begins at $400,000 for married filing joint and $200,000 for single and head of household), the $25,000 rental real estate passive loss allowance (phase-out range of $100,000–$150,000 for most taxpayers), and the exclusion of social security benefits ($32,000 threshold for married filing joint; $25,000 for most other filers).

Specifically for 2022, the child tax credit begins to phase out when AGI reaches $400,000 for married filing joint, $112,500 for a head of household, and $200,000 for a single.

Strategies to lower your income or increase certain deductions could not only reduce your taxable income but potentially increase other tax deductions and credits. Managing your AGI can also help you avoid (or reduce the impact of) the 3.8% Net Investment Income Tax that potentially applies if your AGI exceeds $250,000 for joint returns, $200,000 for unmarried taxpayers, and $125,000 for married filing separately.

Managing your AGI is more difficult, as it is not affected by many deductions you can control, such as deductions for charitable contributions and real estate and state income taxes. You can effectively reduce your AGI by increasing "above-the-line" deductions, such as those for retirement plan contributions. For sales of property, consider an installment sale that shifts part of the gain to later years when the installment payments are received or use a like-kind exchange that defers the gain until the exchanged property is sold. If you're age 70½ or older, consider making charitable contributions from your IRA, as discussed previously. If you own a cash-basis business, delay billings so payments are not received until 2023 or accelerate payment of certain expenses, such as office supplies and repairs and maintenance, to 2022. Of course, before deferring income, you must assess the risk of doing so.

ESTATE AND GIFT PLANNING

For 2022, the unified federal gift and estate tax exemption is $12.060 million, and the federal estate tax rate is 40%. As long as a decedent's taxable estate and lifetime taxable gifts are below the exemption amount, no estate tax will be due. If a married taxpayer dies, it may be beneficial to file an estate tax return to preserve any unused exemption for the surviving spouse even though no estate tax will be due.

TAKE ADVANTAGE OF THE ANNUAL GIFT TAX EXCLUSION - As stated above, for 2022, the annual gift tax exclusion is $16,000. Each taxpayer can give $16,000 per year **to any number** of recipients without owing any federal gift tax. Direct payments to providers for medical expenses and tuition do not count towards the annual exclusion.

TAX LAW CHANGES

Many changes have been made to the tax landscape in 2022. The following are some highlights and tax changes that we think will be most impactful to our clients.

Most of the COVID tax changes were rolled back:

- Unemployment is fully taxable again.
- Earned Income Credit – you must be over 25 or under age 65 in 2022. For 2021 only - the age limits were changed to 19, and there was no upper cap.
- Dependent care credit reverts to pre-2021 levels (35% of a max of $3000 per child).
- The maximum child tax credit amount will decrease in 2022.
    - In 2021, the enhanced child tax credit meant that taxpayers with children ages 6 to 17 could get a credit of up to $3,000. For children under 6, the amount jumped to $3,600. For 2022, that amount reverted to $2,000 per child dependent 16 and younger.
    - Last year the tax credit was also fully refundable, meaning that if the credit amount a taxpayer qualified for exceeded the amount of taxes they owed, they could get the difference back. There was also no minimum amount of income you needed to earn to get the refund.
    - In 2022, the tax credit will be refundable only up to $1,500 (up from $1,400 in 2020 to adjust for inflation), depending on your income, and you must have earned income of at least $2,500 to even be eligible for the refund.

WE ARE HERE TO HELP

The ideas discussed in this letter are a good way to get you started with year-end planning, but they are no substitute for personalized professional assistance. Please do not hesitate to call us with questions or for additional strategies on reducing your tax liability.

Our firm is currently scheduling clients for personalized tax planning for the upcoming year. Please do not wait as the year is closing fast and with the current uncertainty around tax legislation, we may not see some of the opportunities currently available, ever again.

Our dedicated team would be glad to set up a planning meeting or assist you in any other way that we can.

Very truly yours,

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