5 Steps to Take Now to Cut Your 2022 Tax Liability

By CBM Tax Services
Councilor, Buchanan & Mitchell – CPAs & Business Advisors

Dear valued client,

As we wrap up 2022, it's important to take a closer look at your tax and financial plans. Now is the time to review your current tax strategies to make sure they are still meeting your needs, and to take any end-of-year steps that could save you money.

We're here to help you take a fresh look at the health of your tax and financial well-being. Please contact us at your earliest convenience to discuss your situation so we can develop a customized plan. In the meantime, here's a look at some issues to consider as we approach year-end.

Key Tax Considerations from Recent Tax Legislation

Below includes a summary of the highlights in recent tax law changes to help you plan and key year-end planning considerations.

Child tax credit

Significant changes were made to the child tax credit in 2021; however, in 2022 the credit will revert to its pre-2021 form. The credit is up to $2,000 per qualifying child under the age of 17 at the end of 2022. The maximum amount of the refundable portion is $1,500 per qualifying child even if no tax is owed. Earned income must be at least $2,500 to receive the full credit. Unlike in 2021, during 2022 there were no monthly advance payments of the credit, and 17-year-old children do not qualify for the 2022 tax year credit. Credits generally are more valuable than are deductions since credits reduce tax dollar for dollar.

Form 1099-K reporting

In the past, businesses would receive form 1099-K when their gross payments exceeded $20,000 for the year and the business conducted at least 200 transactions. Starting for tax year 2022, the gross payment threshold has been lowered to $600 for the year with the transactions threshold no longer applying. Now a single transaction exceeding $600 can trigger a 1099-K. This includes transactions through credit cards, debit cards, banks, PayPal, Uber, Lyft, and other third-party payment settlement entities. The taxability of these items has not changed, only the reporting rules.

Required Minimum Distributions (RMDs)

RMDs are the minimum amount you must annually withdraw from your retirement accounts (e.g., 401(k) or IRA) if you meet certain criteria. For those reaching age 72 in 2022, the distribution can be made up until April 1, 2023 – thereafter distributions must occur prior to year-end.

Taxpayers reaching age 72 during 2022 should carefully consider the consequences of taking their first RMD now or in the following year, as delaying it may require taking two RMDs in the following year. Delaying might seem beneficial if 2022 were a higher income year but that can have unintended consequences in the following year such as increasing tax brackets, increasing capital gains rates, increasing the amounts of social security that are taxable, phase outs of credits and deductions, and more.

Planning to determine the tax consequences of RMDs is important, especially for those who are in their first year of RMDs. Missing your RMD may cause a 50% penalty on the missed amount!

Taxpayers may wish to consider utilizing their RMD for charitable donation purposes. See the discussion below concerning Qualified Charitable Distributions (QCDs).

Charitable Contribution Deductions and Philanthropic Planning; Give in 2022 or 2023? How to Donate?

The timing of your charitable contributions still can be important as you can take the greatest tax advantage of charitable donations by claiming donations in a high-income tax year. This means taxpayers should review their taxable income at the end of the year and project their 2023 income to determine if a contribution this year or next makes the most sense. Planning around the subject should consider whether one year or the other will or can be an itemized deduction year.

Taxpayers may wish to consider Donor Advised Funds (DAF) should 2022 be a high-income and high tax-bracket year. A DAF allows a taxpayer to make a charitable contribution, receive an immediate tax deduction this year and then recommend grants from the fund in future years.

Taxpayers can consider donating long-term (held for over one year) appreciated assets instead of cash, claim a deduction equal to the market value and avoid capital gains taxes on the appreciation. This deduction is capped at 30% of taxpayers' adjusted gross income. Unused deductions can carry forward for up to 5 years. This item works particularly well using appreciated common stock for publicly traded shares. Other types of assets may require qualified appraisals to substantiate their market value.

Taxpayers may also wish to consider Qualified Charitable Donation/Distributions (QCD). A QCD is a direct transfer of up to $100,000 of funds from an IRA to a qualified charity and can count towards satisfying an RMD. While the contribution does not qualify as an itemized charitable deduction, taxpayers do not have to report the income either. This means taxpayers may recognize a benefit by keeping adjusted gross income lower. The QCD can thus be an advantage, even when the standard deduction is being used. Taxpayers must be 70½ years of age or older and are limited to recognizing a QCD in the amount that would otherwise be taxed as ordinary income. Funds must be transferred directly from your IRA custodian to the qualified charity. This is accomplished by requesting your IRA custodian issue a check from your IRA **payable to the charity**. You can then request that the check be mailed to the charity or forward the check to the charity yourself.

Change to the Charitable Deduction Rules

Unlike in 2021, individuals who do not itemize their deductions can no longer take a deduction of up to $300 ($600 for joint filers) for cash contributions to qualified organizations. Only taxpayers who itemize can deduct qualifying donations in 2022. Taxpayers can claim a charitable deduction up to 60% of their adjusted gross income (AGI) in 2022 (down from 100% in 2021). There are many tax planning strategies we can discuss with you in the charitable contribution area.

State Tax Obligations Related to Teleworking Arrangements

The pandemic has spawned changes in how people work, and more people are permanently working from home (i.e., teleworking). Such remote working arrangements could potentially have tax implications that should be considered by you and your employer. Taxpayers should work with their CBM contacts to determine any state nexus, residency, and/or domicile issues to avoid any surprises come April 15.

Additional Tax and Retirement Planning Considerations

We recommend you review your retirement situation at least annually. That includes making the most of tax-advantaged retirement saving options, such as traditional IRAs, Roth IRAs and company retirement plans. It’s also advisable to take advantage of health savings accounts (HSAs) that can help you reduce your taxes and save for your future. We can help you determine whether you’re on target to reach your retirement goals.

Here are a few more tax and financial planning items to discuss with us:

- Let us know about any major changes in your life such as marriages or divorces, births or deaths in the family, job, or employment changes, starting a business and significant expenditures (real estate purchases, college tuition payments, etc.).

- Consider tax benefits related to using capital losses to offset realized gains — and move any gains to the lowest tax brackets, if possible.
- Make sure you're appropriately planning for estate and gift tax purposes. There is an annual exclusion for gifts ($16,000 per donee, $32,000 for married couples) to help save on potential future estate taxes. The annual exclusion threshold rises to $17,000 per donee in 2023.
- Consider Sec. 529 plans to help save for education; there can be income tax benefits to doing so, and we can help you with any questions.
- Consider any updates needed to insurance policies or beneficiary designations.
- Consider the potential benefit to harvesting capital losses on investments.
- Discuss tax consequences of converting traditional IRAs to Roth IRAs. This is especially beneficial in years with low taxable income, or in increasing tax rate environments.
- Review withholding and estimated tax payments and assess any potential tax obligations.

Year-End Planning Equals Fewer Surprises

There are many other opportunities to discuss as year-end approaches. And, often, there may be strategies such as deferral or acceleration of income, prepayment, or deferral of expenses, etc., that can help you save taxes and strengthen your financial position.

Whether it's working toward retirement or getting answers to your tax and financial planning questions, we're here for you. Please contact your CBM professional by calling our office today at 301.986.0600 to set up your year-end review. As always, planning ahead can help you minimize your tax bill and position you for greater success.

Please contact CBM Tax Practice Director Richard Morris with any question about your tax situation at 301.986.0600 or via email at rmorris@cbmcpa.com.