December 7, 2022

2022 YEAR-END TAX PLANNING GUIDE

HIGHLIGHTS

- Inflation Reduction Act of 2022 – What to Expect
- The Power of "Bunching" Deductions
- The Electric Vehicle Credit Changes
- PTE - A Workaround the SALT Cap
- CJBS Tax Tips

INSIDE

YEAR-END TAX PLANNING AND WHY IT MATTERS

As 2022 draws to a close, it's a good idea for individuals and businesses alike to consider their tax planning before the year ends. It might not be top of your mind during the holiday season, but it's a beneficial way to improve your financial well-being. How? It enables you to develop tax-saving strategies for the longer term and potentially reap benefits in the shorter term.

While the tax environment has somewhat stabilized, the big economic picture is one of high inflation, primarily caused by supply chain issues. After two years of disruption caused by the pandemic, businesses have had to reckon with significant price increases in raw materials, energy and consumables.

The Inflation Reduction Act of 2022 was passed to help alleviate this problem, though it remains unclear how effective it will be in terms of inflation itself. The Act also brings in some of the green energy proposals promised by the President during his election campaign and included in his Build Back Better Plan in 2021, including investment in clean energy and extensions to the Affordable Care Act premium reductions. The 15 percent corporate minimum tax will help offset these costs (see more below). Many of these provisions become effective in 2023, making year-end planning in 2022 even more important.

Below, we have identified some of the key highlights and opportunities to consider. We hope you find this a valuable resource for your year-end tax planning. We have divided this guide into recommendations for individuals and businesses, respectively.

INDIVIDUAL TAXES

Tax planning strategy is all about minimizing the tax you pay, either by reducing your taxable income or increasing the deductions you can take. It's always good to be as proactive as you can about the timing of income and deductions

INCOME TAX: CONSIDER DEFERRING INCOME

The impact of inflation means deferral of income can be a sensible strategy for many. In October, the IRS released the inflation-adjusted tax brackets for 2023, which reflect the 8% inflation affecting the US economy as a whole. If your earnings do not rise by that much, then deferring income from 2022 into 2023 – where possible – will mean more of your income falls into a lower tax bracket

CJBS Tax Tip

If your income fluctuates, it makes sense to be strategic about when you sell investment items. If you expect your income to be lower in 2023, consider holding off on the sale of a capital item in 2022 if your income is at or near a threshold for a higher capital gains bracket. The same goes for net investment income (NII) tax. For example, if you are at the lower end of the 20% capital gains bracket, inflation means that deferring a sale could get you into the 15% bracket, then you could pay 18.8% instead of 23.8% tax on the sale of a capital asset, depending on your situation.

MAXIMIZING DEDUCTIONS: THE POWER OF "BUNCHING"

It's common sense to maximize deductions every year from your taxable income. However, with standard deduction amounts set as such high levels, a better strategy that works for some taxpayers is "bunching." For example, instead of making a regular annual donation by December 31 for this year, you can take the standard deduction in 2022 and make your charitable donation in January and again in December for that year, thereby doubling (or "bunching") your contribution in 2023. This can also be done by create a Donor Advised Fund (DAF). This can help accelerate your bunching strategy to maximize the charitable deduction, especially if you have a high-income year. Contributions to this fund can be directed to a charity of your choice at a later year. Additionally, "bunching" can also be achieved with elective (but non-cosmetic) medical expenses.

CJBS Tax Tip

Inflation means that the standard deductions for 2023 are much higher than in 2022. Creative planning (including "bunching") will help you identify which strategy to use—in which year—to create the best scenario for you and your finances. It is always worth looking at your individual situation to see what makes the most sense.

ENERGY CREDITS: CHECK THE SMALL PRINT BEFORE BUYING A NEW ELECTRIC VEHICLE

The new Clean Vehicle Credit retains the maximum credit amount ($7,500) for taxpayers who purchase a plug-in electric vehicle, but the requirements for a vehicle to qualify have become much more stringent. For example, there is a new limitation based on the manufacturer's suggested retail price (MSRP) of the vehicle.

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CJBS Tax Tip

Fewer vehicles qualify under the final assembly requirement, so you should take professional advice before relying on the credit when deciding to buy an electric car. In 2023, this policy also applies to previously owned clean vehicles, so it's worth doing your due diligence when it comes to when to purchase the vehicle and claim the credit.

OTHER STRATEGIES

There are a number of additional year-end tax planning strategies that apply in any given year. Some of these include:

- Gift tax exemption for 2022 is $16,000. This means you can employ estate planning strategies by simply gifting up to $16,000 to any individual by December 31, allowing you to transfer wealth without triggering the gift tax filing requirement.
- Maximizing education credits by claiming credit for tuition paid in 2022, even if the academic period does not begin until the end of March 2023.
- Reducing your adjusted gross income (AGI) by increasing your 401(k) contributions or IRA contributions, for which eligible individuals can claim deductions for amounts contributed through April 18, 2023.
- Teachhers can claim a deduction for classroom expenses (up to $300) including personal protective equipment used to prevent the spread of Covid-19, and should maximize those expenses by year-end.

BUSINESS TAXES

PREPARE FOR THE CORPORATE ALTERNATIVE MINIMUM TAX (AMT)

The Inflation Reduction Act of 2022 Brings in a new corporate AMT equal to 15 percent of the corporation's "adjusted financial statement income" for the tax year, less a corporate AMT foreign tax credit. This applies to corporations with average annual adjusted financial statement income of more than $1 billion for the past three tax years (reduced to $100 million in the case of certain foreign-parented corporations). Exceptions also apply to where there is a change in ownership or a consistent reduction in income. A corporation's adjusted financial statement income is the net income or loss on the corporation's applicable financial statement. It is adjusted for various purposes, including consolidated returns or for certain foreign income. Where possible, those corporations affected by AMT will benefit from accelerating profitability on their financial statements into 2022 while they still can.

DEPRECIATION AND EXPENSING: BENEFITTING FROM THE YEAR-END BONUS BEFORE IT PHASES OUT

Favorable depreciation and expensing limitations included in the Tax Cuts and Jobs Act still apply. However, the one hundred percent first-year bonus depreciation for machinery and equipment purchased in 2022 will be phased out. It would be best to take advantage of this before the year-end, by purchasing qualifying property and equipment, if possible.

CJBS Tax Tip

As mentioned above, the Inflation Reduction Act provides a new $7,500 credit for the purchase of clean commercial vehicles after 2022. Businesses considering purchasing environmentally friendly vehicles should look at the relevant requirements and limitations and decide accordingly. Ask your CJBS team member to conduct a cost segregation study to identify opportunities to accelerate depreciation, including whether making purchases in 2022 or 2023 is more beneficial.

R&D EXPENSES: LOOK OUT FOR RETROACTIVE EXTENSION OF EXPENSING

The Tax Cuts and Jobs Act changed the rules so that after 2021, research and development costs could not be deducted in the same year but would have to be amortized rateably over five or ten years. Though none are in place yet, there have been proposals to extend the direct expensing of these costs, so watch this space

PTE (PASS-THROUGH ENTITY)

Careful planning incorporates understanding what is allowed based on your state and whether it offers SALT Cap Relief. The PTE creates a workaround that reduces the net income that passes through to the owner, mitigating the SALT limitation and reducing your federal taxable income.

A FINAL NOTE

As always, the changes discussed above will affect some taxpayers more than others. Depending on your income, assets, and mode of employment or business type, it may be beneficial to take advantage of these initiatives and changes before the year-end. We are here to help existing and new clients understand what these changes mean for you and how you can employ smart year-end tax planning.

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