

2022 YEAR-END TAX PLANNING CHECKLIST



As we approach the final weeks of the year, there is still time to minimize your 2022 tax liability and get a jump start on your 2023 tax planning. This has been a tough year for the financial markets, with the stock market taking a downturn, interest rates rising, and the prospect of a recession looming. Furthermore, as the dust settles from the midterm elections, there remains a lot of uncertainty as to how income taxes may be impacted.

This guide highlights several potential tax-saving opportunities for you to consider and discuss with your tax advisor. Spending a little time to reassess your tax strategies before the year closes will put you in the best position to save money come tax time.

Executive Summary

This guide will discuss the following year-end tax planning strategies:

- Benefits of accelerating deductions into 2022, and deferring income into 2023, and vice versa
- Maximize your itemized deductions
- Retirement planning for contributions, distributions, and conversions
- Nonbusiness Energy Property Credit
- Estate planning moves to make before year-end and in 2023
- Maximizing the Qualified Business Income (QBI) deduction
- Generous asset-expensing opportunities
- Pass-through Entity Tax (PTET) workaround
- Employee Retention Tax Credit (ERTC)

2022 Tax Planning Opportunities — Individuals

The time-honored tactic of accelerating deductions and deferring income may not always be the best strategy. It's important to consider target income thresholds to maximize the benefit of deductions (e.g., itemized, student loan interest, tuition, and fees) and/or the utilization of credits (e.g., child credit, education credits) that are based on a percentage of adjusted gross income or income levels and then plan to shift income or deductions to maximize these tax benefits.

For individuals who expect to be in a higher federal income tax bracket or have higher income in 2022 than in 2023, it may be advantageous to defer income into next year. Some ways to defer income before year-end include:

- **Installment Sales** – If you expect to sell property before the end of 2022, and it makes economic sense, consider selling the property and reporting the gain under the installment method.
- **Delay Billing** – An option for taxpayers utilizing the cash method of accounting
- **Interest and Dividends** – Since interest earned on CDs or treasury securities with maturities of one year or less are not includible in income until received at

maturity, consider buying short-term bonds or certificates that will not mature until next year.

- **Year-end Bonuses** – Consider arranging with your employer to defer a year-end bonus until early 2023.



On the other hand, if you expect to be in a higher tax bracket in 2023 compared to 2022, accelerating income into this year may be advantageous. Some ways to accelerate income before year-end include:

- **Issue Invoices and Pursue Collection** – An option for taxpayers utilizing the cash method of accounting
- **Interest and Dividends** – If you are not in the highest capital gains bracket for 2022, but you expect to be in 2023 and you have control over when dividends are paid on an investment or from your closely held corporation that pays qualified dividends, consider authorizing such dividends before year-end.
- **Retirement Plan/IRA Distributions** – If you have obtained the age of 59½ and have a retirement account, consider taking taxable withdrawals before year-end. You may also want to consider making a Roth IRA rollover distribution.

2022 Tax Planning Opportunities — Individuals (Continued)

- ☐ Review your investment portfolio – Consider timing the sale of assets to have offsetting capital gains and losses. If you have any realized gains in your portfolio, consider harvesting losses to offset these capital gains. If you have a net capital loss greater than \$3,000 (maximum amount deductible), consider selling investments with gains. These gains will be sheltered from tax by the loss. Control taxable income to less than \$83,350 (married filing joint) to take advantage of the zero capital gains tax rate. Be sure to consult your portfolio advisor, as these steps should only be taken if the results also align with your overall investment plan.
- ☐ Even though planning for itemized deductions is made complex by factors such as AGI levels, AMT, filing status, and the increased standard deduction (\$12,950 for single filers, \$25,900 for married filers filing jointly, and \$19,400 for heads of household), being familiar with the following concepts will help you navigate some of this complexity and maximize your itemized deduction.
 - **Deduction in Year Paid** – An expense is deductible in the year in which it was paid. Medical expenses and charitable contributions paid with a credit card before year-end will generate a tax deduction in the current year even if the credit card bill is not paid until next year.
 - **Donor-Advised Fund** – Interested in making a significant charitable contribution before year-end, but aren't sure what charity you want to donate to? Consider establishing a donor-advised fund. Money contributed to the fund can be deducted in the current year and you can decide later which charity or charities will receive the funds.
 - **Bunching Itemized Deductions** – If your itemized deductions are consistently near the standard deduction, perhaps slightly below or above, consider postponing current year deductible expenses (e.g., charitable contributions) until next year to “bunch” your itemized deductions. Analyze your position from year to year to itemize your bunched itemized deductions in years of high income.
- ☐ The nonbusiness energy property credit, which had expired at the end of 2021, is revived for property installed in 2022 and later. For 2022, the credit amount is 10% of costs up to \$500 (a lifetime limit) for purchases of certain types of energy-efficient equipment for your principal residence that are installed in 2022, such as energy-efficient insulation, windows, doors, roofing, and similar improvements. There is a \$200 lifetime limit for windows.
- ☐ Consider donating appreciated stock. You will receive a charitable contribution for the full fair market value and will avoid the capital gain on the sale. Different deduction rules may apply to donations of cars, boats, and airplanes.
- ☐ If you are age 70½ or older by the end of 2022 and have traditional IRAs, consider making a qualified charitable distribution (QCD) directly from your IRA. Such distributions, up to \$100,000 per year, are made directly to charities (excluding donor-advised funds) from your IRA. The amount of the contribution is neither included in your gross income nor deductible as an itemized deduction.
- ☐ Maximize your retirement plan contributions to 401(k)s and IRAs. Maximizing pre-tax retirement contributions is generally a good tax-saving strategy.
- ☐ Required minimum distributions (RMDs) are the minimum amount you must annually withdraw from your retirement accounts (401(k) or IRA) if you meet certain criteria. For 2022, you must take a distribution if you are age 72 by the end of the year (or age 70½ if you reach that age before January 1, 2020).
- ☐ Consider converting your traditional IRA to a Roth IRA if you anticipate lower income in the current year. The advantage of a Roth IRA is that future income distributions will not be taxed. The drawback to the conversion is that the amount transferred is subject to tax now. Conversions to a Roth IRA make sense if you anticipate paying higher taxes in the future, if you have several years before you might tap into the Roth IRA, which gives you a chance to recoup the tax you paid at conversion, and if you will not need the income during retirement and would like to pass it on to your beneficiaries.
- ☐ Take advantage of still available estate planning opportunities – make gifts sheltered by the annual gift tax exclusion before year-end and save gift and estate taxes. The exclusion applies to gifts of up to \$16,000 made in 2022 to each of an unlimited number of individuals. Married couples can make joint gifts up to \$32,000 per donee. You cannot carry over unused exclusions from one year to the next so don't pass up this year's opportunity. Consider transferring income-earning property to family members in lower-income tax brackets. Also, maximize contributions to a Section 529 Plan, which allows the equivalent of five years of gifts (\$80,000) to each beneficiary. Make direct payments to providers for medical expenses and to schools for qualified tuition expenditures. Such payments are not capped and can be made in addition to the annual exclusion gifts.

2022 Tax Planning Opportunities — Business Owners

- ☐ Manage taxable income to take advantage of the 20% Qualified Business Income (QBI) deduction. For 2022, if taxable income does not exceed \$340,100 (joint filers) or \$170,050 (all other taxpayers), the deduction is generally the lesser of 20% of QBI or 20% of taxable income. Limitations may apply if taxable income exceeds these thresholds. The deduction may be reduced or eliminated if you are engaged in a specified service trade or business (e.g., law, accounting, or health). If your business is not considered a specified service business and you exceed the income thresholds, your QBI deduction may be limited by the amount of W-2 wages and/or the unadjusted basis of qualified property (e.g., machinery and equipment) held by the trade or business.
- ☐ Consider changing to the cash method of accounting. To qualify, a business must, among other things, satisfy a gross receipts test. This test is satisfied if, during a three-year testing period, average annual gross receipts do not exceed \$27 million. Cash method taxpayers may find it easier to shift income as a tax-planning strategy.
- ☐ Accelerate Deductions – Consider charging expenses on a credit card, as the deduction will be allowed in 2022 even if the credit card bill is not paid until 2023.
- ☐ Consider making expenditures that qualify for the business property expensing option. For 2022, the expensing limit is \$1,080,000 and the investment ceiling limit (at which point a phase-out begins) is \$2,700,000. Expensing is generally available for most depreciable property (other than buildings) and off-the-shelf computer software. This expensing opportunity is available for qualified improvement property (generally, any interior improvement to a building, but not for enlargement of a building, elevators or escalators, or the internal structural framework) roofs, and nonresidential HVAC, fire protection, alarm, and security systems. The expensing deduction is not prorated for the time that the asset is in service during the year. Thus, property acquired and placed in service in the last days of 2022 will result in a full expensing deduction for the year. These deductions are further limited by net income from the business for the year. When deciding if it is prudent to deduct these expenditures right away, one should consider state implications. Not all states allow these deductions and taking the present deduction could negatively impact your state tax liabilities.
- ☐ Businesses may also claim a 100% bonus first-year depreciation deduction for machinery and equipment bought new or used (with some exceptions) if purchased and placed in service this year. The 100% write-off is permitted without any proration based on the length of time that an asset is in service during the tax year. As a result, the 100% bonus first-year write-off is available even if qualifying assets are in service for only a few days in 2022. Note that eligibility limits may exist for certain auto dealerships with floor plan financing, as well as for some real estate ventures. Further, some states, such as Illinois, do not conform to the treatment of the 100% bonus depreciation. For assets placed in service, bonus depreciation is only 80% of the cost.
- ☐ As in previous years, businesses, including self-employed individuals and owners of certain real estate, may be able to take advantage of the de minimis safe harbor election to expense the costs of lower-cost assets and materials and supplies. To qualify for the election, the cost of a unit of property cannot exceed \$5,000 if the taxpayer has an applicable financial statement (AFS, e.g., a certified audited financial statement along with an independent CPA's report). If there is no AFS, the cost of a unit of property cannot exceed \$2,500. Consider purchasing such qualifying items before the end of 2022 and ensure that the purchase invoice clearly states the quantity and per unit cost if multiple items are bought.
- ☐ Businesses can establish and fund a profit-sharing plan up through the extended due date of the 2022 corporate tax return. This allows a tax deduction to the company and jump-starts individual retirement savings.
- ☐ Businesses will be able to deduct 100% of business meals. These costs must be paid for food or beverages provided by a restaurant.
- ☐ Businesses that invest in research and development may qualify for the credit for research activities. The R&D credit can be as much as 20% of the amount spent on qualifying research.
- ☐ Pass-through Entity Tax (PTET) Workaround – Many high-income tax rate states, such as Illinois, California, and New York, etc., have enacted legislation to help pass-through owners (shareholders in S Corporations and partners in partnerships) make an election to deduct state income taxes at the entity level instead of having the owners pay income taxes—which would otherwise be limited to the \$10,000 State and Local Tax (SALT) deduction on Schedule A. Taxes paid by the business would be deducted as an ordinary business expense for federal tax purposes and would pass through to the owner, thereby bypassing the \$10,000 SALT limitation. Legislation varies by state with each state requiring its own election, due dates, forms, and other disclosures.

2022 Tax Planning Opportunities — Business Owners (Continued)

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| <input type="checkbox"/> Single-member LLC owners that are disregarded entities for tax purposes and are in a PTET state (as described above) may want to consider adding a non-voting member (even if their share/ownership is a nominal amount, i.e., 0.1%) so that the LLC is now a partnership, and it can take advantage of the state legislation for the SALT limitation workaround. Caution: there must be a business purpose for this change. | <input type="checkbox"/> Although the Employee Retention Tax Credit (ERTC) program has officially sunset, this does not impact the ability of a business to claim ERTC retroactively. The ERTC is a refundable credit that businesses can claim on qualified wages, including certain health insurance costs, paid to employees. Businesses have until April 15, 2024 to file amended returns for Q2, Q3, and Q4 of 2020 and until April 15, 2025 to file amended returns for all 2021 quarters. |
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These are just a few year-end tax-planning strategies that you may benefit from in 2022. It is important to keep in mind that tax planning is very much an individualized tool. While this article has focused on tips for 2022, it is not too early to begin thinking about steps to take for 2023. The month of December is usually when employers distribute 2022 paperwork, so:

- Estimate your 2022 out-of-pocket medical expenses and childcare expenses to contribute pre-tax income to your FSA (flexible spending accounts);
- Plan your 401(k) contribution, aiming to contribute, at a minimum, the amount required to receive your employer's match; and
- If you have a qualified HDHP (high deductible health plan) to maximize contributions to your HSA (health savings account).

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If you have any questions about year-end tax planning or if you need further assistance, please contact us.

Any tax advice included herein (including any attachments) was based on our understanding of the facts and circumstances provided to us and our interpretation of the current tax law and regulations. We assume no responsibility for updating the tax advice given based on any changes in the facts and circumstances, or any subsequent changes in the tax law or regulations, even though it could change the conclusions reached in our planning.