



## YEAR-END TAX PLANNING 2022

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For the past two years we have prepared for the potential passage of major tax legislation. Due to razor-thin margins in Congress, however, the sweeping proposals of the Build Back Better Act have given way to the more modest Inflation Reduction Act (the “Act”). Now, with the midterm elections leaving us with a divided Congress, it appears unlikely that there will be any major new tax legislation in the near future. With no significant tax law changes expected, we return to more traditional tax planning such as deferring income and accelerating expenses. Nevertheless, even though we do not anticipate any major new tax laws, the current higher-interest-rate environment does present some tax planning opportunities that we have not seen in several years.

### Inflation Reduction Act

The Act makes a number of changes that affect large businesses, including a 15% minimum tax on corporations with average annual adjusted financial statement income in excess of \$1 billion. The Act also includes a 1% excise tax on stock repurchases by domestic corporations whose stock trades on an established securities market. Another focus of the Act is to promote the use of green energy, extending business credits for the use of electricity produced from certain renewable sources.

One of the new green-energy incentives could make a big difference for taxpayers looking to purchase an electric vehicle. The credit for the purchase of “clean” vehicles, which includes both plug-in electric vehicles and fuel-cell vehicles, has been extended through 2032. The credit has been increased to \$7,500 but includes multiple limitations. In order to qualify, for example, vehicles will need to be assembled in North America. The credit only applies to cars priced under \$55,000 and vans, trucks, and SUVs under \$80,000. The Act also instituted an income limit to qualify for the credit. Single filers with modified adjusted gross income over \$150,000 and married taxpayers filing jointly making over \$300,000 will not qualify for the credit. Beginning in 2024, dealers will be able to reduce the price of the vehicle at the time of purchase by the amount of the credit. If it turns out later that the purchaser did not qualify for the credit, it will need to be repaid when they file their tax return for the year, likely leading to some surprise tax bills.

### Take Advantage of New Opportunities

While rising interest rates and current market conditions have been tough on investors, these otherwise challenging circumstances do open up some unique tax planning opportunities:

- ▶ **Make a Roth Conversion:** Converting a pre-tax retirement account into a Roth IRA means the converted amounts will be taxed immediately at ordinary income tax rates, which may or may not make sense for a particular taxpayer. After being converted into a Roth IRA, however, the funds in question receive the double benefit of growing tax-free and not triggering taxes upon distribution at a later date. It may make sense to convert now while account values are depressed and we still have the lower individual income tax rates from the Tax Cuts and Jobs Act. The individual income tax rates are set to increase after 2025 without congressional intervention.
- ▶ **Harvest Tax Losses:** Selling securities at a loss and then rebuying similar securities is a great way to offset other capital gains. Just be sure not to run afoul of the wash-sale rules. The wash-sale rules prohibit rebuying the same or a substantially identical investment 30 days before or after the loss sale.
- ▶ **Execute a Bond Swap:** A bond swap is similar to traditional tax loss harvesting, but rather than selling stocks it involves selling depreciated bonds and replacing them with similar bonds. The wash sale rules still apply, so it is important to change key attributes of the new bond such as the issuer, the maturity date, and the coupon rate.
- ▶ **Create a Qualified Personal Residence Trust (“QPRT”):** A QPRT is an estate-planning technique used to transfer a personal residence to

trust beneficiaries. The grantor contributes their home to a trust with a provision that allows them to use the residence as their own for a set number of years. At the end of the term, the residence passes on to the remainder beneficiaries. If the grantor wants to continue to live in the home, they must rent it from the beneficiaries at fair market value. QPRTs are more attractive during higher-interest-rate environments. The initial transfer of the home to the trust is a taxable gift of the remainder interest, which is calculated using the so-called Section 7520 interest rate. The higher the interest rate, the lower the amount of the taxable gift.

- ▶ **Fund a Charitable Remainder Annuity Trust ("CRAT"):** A CRAT is a split-interest vehicle where the grantor contributes to a trust for the benefit of a charity. The trust runs for a set number of years, paying out an annuity to the grantor, while the remainder at the end of the term goes to charity. The grantor receives a charitable deduction when the trust is created based on the expected remainder value of the gift. The calculation uses the Section 7520 interest rate, and the higher the rate, the larger the deduction. CRATs must also meet certain minimum payment thresholds, and higher interest rates make it more likely that the CRAT will pass IRS review.

will have trouble eclipsing the standard deduction threshold. One strategy to get over the threshold is to bunch multiple years' worth of contributions into one year. Setting up a donor advised fund is a great way to accomplish this bunching strategy while still controlling the timing of the charitable contributions.

- ▶ **Think Beyond Federal Taxes:** Most tax planning is focused on minimizing federal taxes, but it is important to remember the impact of state and local taxes as well. In Massachusetts, for example, voters just passed a new "Millionaire Tax," an additional 4% tax on all income over \$1,000,000 beginning in 2023. For high-income taxpayers subject to Massachusetts taxes, it may make sense to accelerate ordinary income and realize capital gains before the end of the year to avoid this additional tax.
- ▶ **Save Money for Education:** Contributing to a Section 529 savings plan is a great way to let your college savings grow tax-free. If the funds are used for qualified education expenses, there will be no tax when withdrawn. These plans are even more flexible now that \$10,000 per year can be used to pay for K-12 tuition. Be aware, however, that not every state has conformed with the federal rules, so a K-12 distribution may still be taxable at the state level. It is also possible to "superfund" a 529 plan by frontloading 5 years' worth of gifts into one year, provided that certain filing requirements are met.
- ▶ **Give to Future Generations:** The annual gift-tax exclusion amount increased to \$16,000 in 2022. A married couple can gift \$32,000 per year to as many individuals as they want without eating into their lifetime estate exclusion. The gift-tax exclusion is set to increase again next year to \$17,000. Keep in mind that medical expenses and tuition payments made directly to an institution on behalf of family members do not eat into the lifetime exemption.

## Use Tax Planning to Achieve Your Goals

While year-end tax planning is typically focused on immediate tax savings, it is important to think about larger goals. For some taxpayers that may mean having peace of mind during retirement. For others it may mean paying their grandchildren's college tuition or supporting their favorite charitable causes. Year-end is a great time to review and reassess your goals, including how best to accomplish them in a tax-efficient way.

- ▶ **Donate to a Charity:** Contributing to charity can be a highly effective way to lower your tax bill while helping your community. Nevertheless, unless the above-the-line charitable contribution is extended, only taxpayers who itemize their deductions get any tax benefit from their contributions. With the deduction of state and local taxes currently limited to \$10,000, many taxpayers

It is of course important to remember that each taxpayer's circumstances are different. You should therefore contact your wealth or tax advisor to develop an appropriate plan tailored to your individual situation.

## 2022 Federal Income Tax Rates

Marginal Rate	Single	Married Filing Joint	Head of Household
10%	\$0 - \$10,275	\$0 - \$20,550	\$0 - \$14,650
12%	\$10,276 - \$41,775	\$20,551 - \$83,550	\$14,651 - \$55,900
22%	\$41,776 - \$89,075	\$83,551 - \$178,150	\$55,901 - \$89,050
24%	\$89,076 - \$170,050	\$178,151 - \$340,100	\$89,051 - \$170,050
32%	\$170,051 - \$215,950	\$340,101 - \$431,900	\$170,051 - \$215,950
35%	\$215,951 - \$539,900	\$431,901 - \$647,850	\$215,951 - \$539,900
37%	> \$539,900	> \$647,850	> \$539,900

## Retirement Contribution Limits

Type of Account	2023 Contribution Limit	2022 Contribution Limit
Individual Retirement Account (IRA)	\$6,500 + \$1,000 catch up if over age 50	\$6,000 + \$1,000 catch up if over age 50
Roth IRA	\$6,500 + \$1,000 catch up if over age 50	\$6,000 + \$1,000 catch up if over age 50
401(k), 403(b) and most 457 plans	\$22,500 + \$7,500 catch up if over age 50	\$20,500 + \$6,500 catch up if over age 50
SEP IRA and Solo 401(k)	\$66,000 up to \$330K of comp	\$61,000 up to \$305K of comp
SIMPLE IRA	\$15,500	\$14,000
Defined Benefit Plans	Annual Benefit \$265,000	Annual Benefit \$245,000
Overall Qualified Plan Contribution Limit (Employer + Employee)	\$66,000	\$61,000

SOURCES: <https://www.irs.gov/retirement-plans/cola-increases-for-dollar-limitations-on-benefits-and-contributions>  
<https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2022>

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