EagleStone
Tax & Wealth Advisors

2022 Year-End Tax Planning

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Year-End Tax Planning Overview

As we wrap up 2022, it's important to take a closer look at your tax and financial plans. This year likely brought challenges and disruptions that significantly impacted your personal and financial situations — a continued global pandemic, several significant natural disasters, new tax laws and political shifts. Now is the time to take a closer look at your current tax strategies to make sure they are still meeting your needs and take any last-minute 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 tax situation so we can develop a customized plan. In the meantime, this document takes a look at some issues to consider as we approach year end.

It is important to consider the following when evaluating tax planning strategies:

- The objective should be to achieve your personal financial and/or business goals in the most tax-efficient manner possible.
- Minimizing taxes can potentially enhance overall investment and business returns.
- Although tax planning is most effective when done throughout the year, many tax-saving strategies can be identified and implemented as year-end approaches.
- New tax legislation routinely presents tax planning opportunities. Therefore, ongoing tax planning is necessary to take advantage of tax-saving strategies.
- Effective tax planning requires accurate estimates of taxable income for 2022 and 2023; developing reliable estimates is critical to making planned tax savings.
- Not every tax planning opportunity is appropriate for every person. However, identifying specific planning ideas that work for your profile can potentially reduce your tax liabilities.

Most tax tips, suggestions, and strategies are of little practical help without an understanding of your current tax situation. This is particularly true for year-end planning and why it is important to evaluate your current tax situation while there's still time to affect your bottom line for the 2022 tax year. Tax projections will help you estimate your present tax situation and identify any possible issues you'll need to address.

Basic Tax Planning Strategies

Timing is Everything

The last few months of the year may be the time to consider deferring or accelerating income and deductions, taking into consideration the impact on both this year's and next year's taxes.

Delaying Income & Accelerating Deductions

You may be able to defer a year-end bonus, defer the sale of capital gain property (or take installment payments rather than a lump-sum payment), or delay the collection of business debts, rents, and payments for services.

Doing so may allow you to defer paying tax on the income until next year. If there's a chance that you'll be in a lower income tax bracket next year, deferring income could mean paying less tax on that income as well.

Similarly, we can consider strategies to accelerate deductions into 2022. If you itemize deductions, you might accelerate some deductible expenses like medical expenses, qualifying interest, or state and local taxes (for those not exceeding the new $10,000 cap) by making payments before year end. You may also consider making next year's charitable contribution this year instead.

Accelerating Income & Postponing Deductions

What if you'll be in a higher tax bracket in 2023? If you know that you'll be paying taxes at a higher rate in 2023 (say, for example, that an out-of-work spouse will be reentering the workforce in January), you might take the opposite track. Consider whether it makes sense to try to accelerate income into 2022, and to postpone deductible expenses until 2023.

Withholding from Wages

If it is projected that you will owe a substantial amount when you file this year's income tax return, ask your employer to increase your income tax withholding amounts before the year end. Even though the additional withholding will come from your last few paychecks, it's generally treated as having been withheld evenly throughout the year. Paying at least 90% of your 2022 tax liability or 100% of what you owned for 2021 (110% if your 2021 AGI exceeded $150,000) may help you to avoid paying an estimated tax penalty due to under withholding.

If your situation is the opposite, where you have significantly overpaid your taxes and estimate you'll be receiving a large refund, you can reduce your withholding accordingly, putting money back in your pocket this year, as opposed to waiting for your tax refund to come in the following year.

Capital gains and timing

The long-term capital gains rate applies to investments held for more than 12 months. These gains can be taxed at 0%, 15%, or 20%, according to income thresholds. Short-term capital gains are taxed as ordinary income; these rates can be as high as 37% depending on your tax bracket. Holding assets for more than a year before selling them may help substantially decrease the tax on the gain.

Investment trading and timing

If possible, you might want to consider delaying a trade, if a potential sale would trigger a short-term gain (taxable at ordinary income rates), until a position has been held for a year and the same sale is now a long-term gain (taxable at more advantageous rates) especially if there is no equivalent offset or loss to the short-term gain.

Individuals

- The number of tax brackets remain the same; however, as they are every year, the 2022 tax brackets were adjusted to account for inflation.
- The standard deduction increased for individuals and couples to $12,950 and $25,900, respectively, for 2022.
- Personal exemptions will remain at $0.
- Itemized deductions:
  - State and property tax deductions are limited to $10,000 through 2025.
  - Miscellaneous itemized deductions have been suspended through 2025.
  - Personal casualty and theft loss deduction is suspended through 2025 except if the loss was due to an event officially declared a disaster by the President.
  - Medical expenses are deductible to the extent they exceed 7.5% of income for 2022. Mileage driven for health care purposes can be deducted at 18 cents per mile (January-June 2022) and 22 cents per mile for the rest of 2022.
  - Mortgage interest expense incurred to purchase, build, or improve your principal residence and a second residence can be deducted up to $750,000 for debt incurred after Dec. 15, 2017 (joint filers) and up to $375,000 (separate filers).
  - Charitable contributions in 2022 and 2023 will be subject to a 60% AGI limitation.

- Excess Business Loss (EBL) – The EBL limitation took effect in the 2021 tax year end, due to the Inflation Reduction Act (IRA), and it will remain in effect for a minimum of eight years. EBLs are calculated by determining the amount by which a taxpayer's aggregate trade or business deductions or losses exceed their gross trade or business income or gain. In 2022 and 2023, the losses a taxpayer can take are limited to $270,000 for single filers and to $540,000 for joint filers, and $289,000 for single filers and $578,000 for joint filers, respectively. Any amount that exceeds the annual limit threshold can be carried forward as a net operating loss (NOL) that can be used to offset taxable income in the future. It is important to note that the EBL limitation is applied at the partner or shareholder level.

- 3.8% Net Investment Income Tax (NIIT) – Taxpayers with Modified Adjusted Gross Income (MAGI) over $200,000 for single filers ($250,000 for joint filers, and $125,000 for married filing separately) may be subject to an additional 3.8% tax on top of whatever tax they owe on their investment income. This additional tax applies to individuals, estates, and trusts that have net investment income above the specified thresholds.

- Child Tax Credit – The American Rescue Plan (ARPA) for 2021 increased the credit up to $3,000 per dependent under 18 but the credit has now reverted in 2022 back to its original limit of $2,000 for every dependent under age 16. Last year the tax credit was fully refundable, meaning that if the credit amount exceeds the amount of taxes owed, the taxpayer could get the difference back. In 2022, the tax credit will be refundable only up to $1,500 for individuals with no tax liability.

- Energy Efficiency Tax Credit – Tax credits for residential energy efficiency have now been extended, retroactively, through 12/31/2022. The tax credit for builders of energy-efficient homes has also been retroactively extended through 12/31/22. Tax deductions for energy-efficient commercial buildings allowed under Section 179D of the Internal Revenue Code were made permanent under the Consolidated Appropriations Act of 2021.

- Electric Vehicle Tax Credits – Electric vehicles (EV) placed in service after Dec. 31, 2022, can qualify for up to $7,500 EV tax credit for 10 years until Dec. 2032. The amount of the credit will be based on a calculation that considers factors like the vehicle's sourcing and assembly. Starting in 2023, this credit isn't available to taxpayers with MAGI over $150,000 for single filers and $300,000 for joint filers. Used EVs will now have a tax credit of either up to $4,000 or 30% of the price of the vehicle, whichever is less. There are income limits on who can claim the EV credit. The credit for used EVs isn't available if the lesser of your MAGI for the year of purchase or the preceding year exceeds $75,000 for single filers and $150,000 for joint filers.

- Charitable Giving Options:
  - Charitable Distributions – IRA owners who are 70 ½ and older are allowed to make cash contributions up to $100,000 directly from their IRA to approved public charities. You are not taxed on these qualified charitable distributions, but they also cannot be deducted as an itemized deduction.
  - Charitable Remainder Trusts (CRT) – A type of trust where the grantor contributes assets to an irrevocable trust and that trust provides payments to an income beneficiary for a specific period of time. Any remaining assets would pass to one or more charitable beneficiaries, such as a family foundation or public or private charity. The grantor receives a deduction limited to the present value of the charitable organization's remainder interest.
  - Donor-Advised Funds – A separately identified fund or account operated by a sponsoring organization that invests and manages the donated assets. The individual donor makes the contribution and receives a tax deduction in the year of the contribution. If you own investments that have significantly increased in value, you pay no capital gains when the assets are liquidated, and you can recommend grants to the charities of your choice.

- 529 Plans – A tax-advantaged savings plan designed to help pay for education. Contributions aren't deductible at the federal level, but some states offer tax breaks for contributing. In 2022, you can contribute up to $16,000 to a 529 plan ($32,000 as a married couple filing jointly) without gift-tax consequences.
  - Prepaid tuition plan: Tuition is guaranteed regardless of its cost at the time the beneficiary attends the school. Most prepaid tuition plans do not cover other expenses, such as room and board. If you child chooses not to attend a college covered by the prepaid tuition plan, although you will not get the benefit of guaranteed tuition, you can use the plan money to pay tuition at other colleges.
  - College savings plan: Allows you to pay a student's expenses at most post-secondary educational institutions and in addition to tuition, funds can be used to cover fees, books, supplies, computer equipment, room, and board.

- Health Savings Accounts (HSA) – This pre-tax benefit helps you manage your health deductibles and out-of-pocket expenses and allows you to save for future health-related expenses. Most employers offer an HSA with their employer-sponsored health insurance. They can also be accessed through a bank or brokerage company. Contributions to HSAs are tax deductible, up to certain limits, and earnings inside an HSA build up tax-free for the account owner. To contribute to an HSA, you must be enrolled in an HSA-eligible health plan and meet the minimum allowable deductible. The HSA contribution limits for 2023 are $3,850 for self-coverage and $7,750 for family coverage. Those 55 and older can contribute an additional $1,000 as a catch-up contribution.

- Flexible Spending Accounts (FSA) – Another pre-tax benefit account that allows you to cover eligible health care expenses if you plan to contribute what's necessary to cover those expenses by year's end. The annual contribution limit is $3,050 for plan years beginning on or after January 1, 2023. The FSA rollover maximum limit increased to $610. A dependent care FSA account is used to pay for dependent care services such as day care, preschool, summer camps for children under the age of 13. The dependent care FSA annual contribution limit for 2023 will remain at $2,500 for those married and filing separately and $5,000 for those single or married filing jointly.

Businesses

- Purchases of Property and Equipment – 100% bonus depreciation is available for 2022, it applies to new or used property purchased and placed in service by Dec. 31, 2022. Bonus depreciation can create a business loss. Qualified Leasehold Improvement Property is eligible for 100% bonus depreciation. The Section 179 deduction increased to $1,080,000 of qualified property; the deduction phases out if business places over $2,700,000 of property in service during 2022. Section 179 applies to new and used property. Unlike bonus depreciation, Section 179 cannot exceed the business taxable income.

- Consider the de minimis safe harbor election – Electing the de minimis safe harbor allows you to deduct small-dollar expenses for the acquisition or production of property that would otherwise be capitalizable under general rules.

- Qualified Business Income (QBI) – Taxpayers other than corporations may qualify for a deduction of up to 20% of their QBI. This deduction is limited for individuals with taxable income of exceeding $340,100 for married filing joint and $170,050 for all other filing statuses.

- Net Operating Losses — If you have significant losses arising in tax years ending after 2020, you can only carry these losses forward.

- Payroll deferral – The CARES Act permitted employers to defer payment of the employer share of FICA taxes. The payment for the first half of the deferred amount was due by January 3, 2022, and the second half is due by January 3, 2023.

- Methods of Accounting — More businesses can use the cash method of accounting. This can be helpful for cashflow purposes and is generally easier to apply than the accrual method of accounting. There are qualifications that must be met, but we can help you understand if your business would benefit.

- Sales and Use Tax Considerations — States are continuing to make changes to their Sales and Use Tax laws and filing requirements following the U.S. Supreme Court ruling in *South Dakota v. Wayfair, Inc.* Please ask us how this case impacts your business.

- Business Meals — There is a 100% deduction (rather than the prior 50%) for expenses paid for food or beverages provided by a restaurant. This provision is effective for expenses incurred after Dec. 31, 2020, and expires at the end of 2022. The deduction will decrease to 50% for business meals incurred after Dec. 31, 2022.

- More deductions – Deducting eligible accrued compensation liabilities such as bonuses and severance payments by the end of the year and paid within 2.5 months of year end.

State Pass-Through Entity Tax

In response to the federal cap of $10,000 on the state and local tax (SALT) deduction passed in 2020, most states have enacted an option to have the passthrough entity (S corporations & partnerships) be taxed at the entity level. The elective tax allows passthrough entities to deduct state taxes for federal tax purposes, while providing a credit or income exclusion to the entity owners for state income tax purposes.

Maryland (new in 2020) – The rate is 8% on MD sourced income. Applies to both residents and nonresidents.
Virginia (new in 2021) – The rate is 5.75% and the PTET credit can be claimed on a resident or non-resident VA tax return and is refundable. Applies to tax years 2021 through 2025.

The following states have pending legislation to enact the pass-through entity tax: IA, NM, PA, and UT. There are only 10 states with owner-level personal income tax on PTE income that have not yet proposed or enacted PTE taxes: DE, HI, IN, KY, ME, MT, NE, ND, VT, WV.

Investing

Timing can have a dramatic impact on the tax consequences of your investment activities. As the end of the year approaches, you may want to take a closer look at your capital gains and losses and find out what you can do to lower your taxes and losses and maximize your gains.

Tax-loss Harvesting

Due to recent market activity, chances are that your portfolio may have assets with unrealized losses. You may want to consider selling those assets that are currently worth less than what you paid for them. Realized losses offset capital gains decreasing your tax liability. Tax-loss harvesting involves selling an asset when its market value is lower than its cost basis to generate a capital loss. When tax-loss harvesting, it is important to consider the long-term versus short-term capital gain tax rates (20% maximum tax rate for long term gain and 37% for short term gain) and the potential additional 3.8% net investment income tax. If your long-term capital losses are greater than your long-term capital gains, applying the excess loss to short-term capital gains will be beneficial since short-term gains are taxed at a higher federal income tax rate. Any harvested tax losses not offset by gains can offset up to $3,000 of other income and any excess net capital loss can be carried forward indefinitely.

Tax-gain Harvesting

As an investor, in some circumstances, you can realize long-term capital gains with little or no impact to your taxes. The long-term capital gains rate applies to investments held for more than 12 months. The applicable rate depends on your income level and type of asset you've sold. If your pay fluctuates from year to year and you have taxable income of less than $41,675 ($83,350 for married filing jointly) in 2022, you fall into the 0% long-term capital gains tax bracket. In instances where your long-term capital gains tax bracket is higher, you can utilize tax-gain harvesting to offset losses as realized capital losses are netted against realized capital gains eliminating the capital gain taxes that might otherwise be due. Another strategy is to sell an investment for a gain and use the proceeds to purchase the same stock and reset its cost basis (be aware of the wash-sale rule—see below). You will pay no tax on the current gain and the new purchased stock will have a higher cost basis, potentially generating a lower gain when you sell it in the future. Unlike tax-loss harvesting, which can be done year-round, tax-gain harvesting is best implemented at year end.

Wash-sale rule

The wash-sale rule prevents you from taking a loss on a security if you buy a "substantially identical" security withing 30 days before or after you sell the security that created the loss. When you sell an investment at a loss, avoid replacing it with a "substantially identical" investment 30 days before or after the sale date as this can lead to an unexpected result. You can avoid a wash sale if you sell the security and immediately buy securities offered by a different company in the same industry or shares in a mutual fund that holds securities like the ones you sold. The wash-sale rules apply to most investments including bonds, stocks, ETFs, mutual funds, and options. These rules do not apply to cryptocurrency in the US because the IRS views cryptocurrency as property. If you are unsure about the potential replacement investment, consult with your financial advisor.

Tax lot optimization

A tax lot is a record of the details of an acquisition of a security. Every time a security is purchased, it creates a new tax lot for that security. Each tax lot has a unique cost basis and holding period. There are different methods an investor can use to sell their securities. Tax lot optimization allows the investor to pick the specific lot they would like to sell. The goal is to sell the lot that either produces a lower capital gain or results in a tax loss which will reduce capital gains for that year.

Other tax-savings strategies

Natural Gas Investing

Investing in natural gas limited partnerships serves several different objectives, and the deductions accompanying natural gas interests may help to lower your overall taxes. Natural gas investing offers the following potential benefits:

Significant up-front deductions: Often, investors can take first-year income tax deductions for the intangible drilling and development costs associated with drilling the wells. Because a high percentage of your initial investment can go to pay these intangible costs, such deductions may be substantial, often exceeding 80 percent of the initial investment **and is often the primary reason to invest.**

Definition of depletion allowance: The depletion allowance is a type of deduction for limited partners receiving income from investments in natural resources, such as natural gas. You are entitled to take annual deductions for the depletion of energy reserves to compensate you for the part exhausted in production.

Tax shelter (to some extent): If you take deductions for percentage depletion and intangible drilling costs, your otherwise taxable income (whether in the form of cash distributions from the natural gas program, or from other sources) will be sheltered to the extent of those deductions. It is possible that deductions for depreciation, interest, taxes, and operating expenses may flow through as well.

Opportunity Zone Investing

Consider investing in an opportunity zone fund to defer capital gains tax on direct 2022 gains. The Qualified Opportunity Zone Program ("QOZ Program") is a tax-incentive program designed to encourage long-term private sector investments in designated communities known as Qualified Opportunity Zones by delivering certain tax benefits to investors through investment vehicles called Qualified Opportunity Funds. Qualified Opportunity Funds are investment vehicles that invest at least 90% of their assets in qualified businesses or real property located within these Qualified Opportunity Zones.

Retirement

Cash Balance Plans

A Cash Balance Plan is a "hybrid" plan, blending the features of both a defined contribution and defined benefit plan. Some employers offer both a Cash Balance plan and a 401(k) plan, and this combination can really boost retirement savings and provider larger tax deductions. Cash Balance Plans can help business owners to accelerate their retirement savings and realize significant annual tax deductions. Keep in mind that cash balance contributions reduce the owner's taxable income dollar for dollar and grow tax deferred. The maximum contribution for a Cash Balance Plan for 2022 can be as high as $343,000, depending on the owner's age.

Retirement savings options:

- 401(k) plans –This employer-sponsored retirement plan allows you to contribute funds pretax, reducing your 2022 taxable income, and plan assets can grow tax-deferred-meaning you pay no income tax until you take distributions. Your employer may match some or all your contributions. The window to make 2022 contributions to an employer plan typically closes at the end of the year.
- Traditional IRA or Roth IRA – Contributions you make to a Roth IRA (assuming you meet the income requirements) or a Roth 401(k) aren't deductible, so there is no benefit for 2022, but qualified Roth distributions are completely free from federal income tax, making these retirement savings vehicles very appealing. You can make contributions until April 18, 2023.
- SEP – A Simplified Employee Pension is a defined contribution plan that provides benefits like those of a profit-sharing plan. But depending on your situation, your contribution limit may be lower.
- Profit-sharing plan – A defined contribution plan that allows discretionary employer contributions and flexibility in plan design. You generally can make deductible 2022 contributions as late as the due date of your 2022 income tax return, including extensions.

- **Is there a due date to adopt a Plan?**

  Fortunately, Section 201 of the SECURE Act allows for Profit Sharing and Cash Balance plans to be adopted retroactively through the due date of the company's tax return. This allows time well into 2023 to consider whether one of these plans is an option for you for 2022. This law does not apply to 401(k) or 403(b) Plans, as they must be considered and adopted well before the end of the 2022 calendar year.

Retirement plan contribution limits for 2022		
	Maximum contribution	Catch-up contribution
401(k)s, 403(b)s, 457s and SARSEPs	$20,500	$6,500
Traditional and Roth IRAs	$6,000	$1,000
SIMPLE IRA	$14,000	$3,500
SEP	$61,000	Not permitted
Profit-sharing plan	$61,000 or $67,500	$6,500
Catch up contributions are for taxpayers 50 or older by the end of the tax year. To qualify for the $67,500 Profit-sharing limit, the plan must include a 401(k) arrangement and you must be eligible to make catch-up contributions.		

- Retirement funds early withdrawals – Generally, withdrawal from an IRA or retirement plan before age 59 ½ is subject to a 10% early withdrawal tax on top of any income tax that ordinarily will be due on a withdrawal unless an exception applies.

- Required Minimum Distributions (RMDs) – Retired individuals 72 and older must begin to take annual required minimum distributions from their IRAs (except Roth IRAs) and from any defined contribution plans. There is a 50% noncompliance penalty on the amount not distributed as required.

Implementing the Backdoor Roth Conversion

Contributions directly to a Roth IRA are subject to income limits. According to IRS rules, those with income exceeding $144,000 (single) and $214,000 (married filing jointly) cannot contribute directly to a Roth IRA. A backdoor Roth IRA is a Roth IRA that is created when those who cannot open Roth IRAs due to income limits convert their traditional IRAs into a Roth IRA.

If you have a traditional IRA, a partial or full conversion to a Roth IRA can allow you to contribute after-tax dollars to the account. Since the funds are already taxed, the funds and the interest they earn are not taxed further while they grow in the account or when they are withdrawn in retirement. Unlike other retirement plans, Roth IRAs don't require you to take distributions during your lifetime, so you can let the entire balance grow tax-free for the benefit of your heirs.

There are no income limits on making a Roth conversion and contributions through the back door have the same annual maximum limits in 2022 as other IRAs ($6,000 for people under 50 and $7,000 for those 50 or older). Since contributions to the traditional IRA are pre-tax, meaning that they are not taxed at the time of contribution, you must pay taxes on the funds converted from your traditional IRA to a Roth IRA.

There are pros and cons of the Backdoor IRAs: Pros – tax-free growth and withdrawal, no required minimum distributions. Cons – no withdrawal for five years, the conversion of a traditional IRA to a Roth IRA will increase your taxable income, as the pre-tax portion of the converted funds is now part of your taxable income.

Whether a conversion makes sense for you depends on factors such as your age, whether the conversion would push you into a higher income tax bracket or trigger the 3.8% NIIT, whether you can afford to pay the tax on the conversion, your tax bracket now and the expected tax bracket in retirement, and whether you'll need the IRA funds in retirement.

Estate Planning

Ensure your loved ones are provided for after you're gone and that your assets are passed on according to your wishes. The Tax Cuts and Jobs Act (TCJA) implemented high exemptions for estate, gift and generation skipping transfer (GST) taxes, but these exemptions are temporary and without further legislation. The estate tax exemption will return to an inflation-adjusted $5 million in 2026. Whether or not you are subject to estate taxes under current exemptions, it may be good to consider opportunities to potentially save some taxes today.

Estate Tax – The estate and gift tax exemption will increase from $11.06 million (2022) to $12.92 million (2023). This means that a married couple can shield a total of $25.84 million without having to pay any federal estate or gift tax. For those who already maxed out their lifetime giving, this means that they may now only have $1.72 million to give away in 2023.

Gift Tax – Any gift tax exemption used during your lifetime reduces the estate tax exemption available at death. Under the annual exclusion, you can exclude gifts of up to $16,000 per recipient in 2022. This limit will increase to $17,000 in 2023. For a married couple, this means that they can give $34,000 per year per recipient beginning in 2023 without having to file a gift tax return. You must file a gift tax return if you gifted $16,000 or more to someone (other than to your spouse). You must also file a gift tax return if you paid premiums of a life insurance trust.

Grantor Retained Annuity Trust (GRAT) – A GRAT allows you to transfer your assets to your children today, removing them from your taxable estate at a reduced gift tax cost; you receive payments back from the trust for a specified term. At the end of the term, the principal may pass to the beneficiaries or remain in the trust.

Spousal Lifetime Access Trust (SLAT) – A planning strategy where an irrevocable trust is created by one spouse for the benefit of the other during their lifetime; the one spouse makes a gift into the trust while removing the assets from their combined estates. Married couples may be interested in making large, permanent gifts to reduce the size of their estate. The donor may also elect to include other family members (typically children and grandchildren) as beneficiaries. The donor's transfer of assets into the SLAT is considered a taxable gift, but tax may not be owed if the donor utilizes their gift and estate tax exclusion. Transferring assets to a SLAT may be a good strategy for individuals who reside in states with a state estate tax.

American Rescue Plan Act Update

Many tax provisions were implemented under the American Rescue Plan Act (ARPA) that was enacted on March 21, 2021. This act aimed to help individuals and businesses deal with the COVID-19 pandemic and its ongoing economic disruption. Also, some tax provisions were passed late in December 2020 that will impact this filing season. Below is a summary of the highlights in recent tax law changes to help you plan:

Employee Retention Credit (ERC)

The ERC is a refundable payroll tax credit that may be claimed by eligible employers who pay qualified wages to qualifying employees. The ERC encouraged businesses to keep employees on their payroll during the pandemic. Changes were made with legislation to allow businesses to qualify for both Paycheck Protection Program (PPP) loans and the ERC.

There are only two deadlines to claim the ERC: For all quarters in 2020, the deadline is April 15, 2024, and for all quarters in 2021, the deadline is April 15, 2025.

Virtual currency/cryptocurrency

Virtual currency transactions are becoming more common. There are many different types of virtual currencies, such as Bitcoin, Ethereum and non-fungible tokens (NFTs). The sale or exchange of virtual currencies, the use of such currencies to pay for goods or services, or holding such currencies as an investment, generally has tax impacts. Cryptocurrency is not subject to the wash sale rule as this rule only applies to assets classified as stocks or securities and other financial instruments that are traded on organized exchanges. Cryptocurrency is classified as property by the IRS. This is a very complex area, but we can help you work through the reporting requirements and tax consequences.

The Build Back Better Act and the Inflation Reduction Act

We have included brief summaries of some of these provisions. We have by no means included all changes included in the Build Back Better Act or the Inflation Reduction Act of 2022.

Update on Selected Provisions from The Build Back Better Act:

- Generally, extends child tax credit provisions of ARPA through 2022 and increases Safe Harbor recapture amount. The Child Tax Credit was significantly expanded in 2021 by the American Rescue Plan Act so families could receive up to $3,600 per child under six and $3,000 for those ages six to 17; however, the changes were made for just one year and will be reduced back to $2,000 per child in 2023.
- Extends Earned Income Credit provisions of ARPA through 2022. For the 2022 tax year, the earned income credit ranges from $560 to $6,935 depending on tax-filing status, income, and number of children. In 2023, the credit will be worth $600 to $7,430. People without children can qualify.
- Extends ARPA changes to Premium Tax Credit (PTC) – The Inflation Reduction Act extends those expanded subsidies through 2025.

The Inflation Reduction Act of 2022 (H.R. 5376)

The Inflation Reduction Act is the FY2022 reconciliation bill, which sets out to reduce the national deficit, address climate change and invest in clean energy, lower the cost of health insurance and prescription drugs, and reform and enforce the tax code with provisions through 2031. The bill was signed into law on August 16, 2022. Here are some of the most significant provisions of this bill:

- Creation of a 15% corporate minimum tax rate – Corporations with at least $1 billion in income will have a new tax rate of 15%. Taxes on individuals and households won't be increased. Stock buybacks by corporations will face a 1% excise tax.
- Prescription drug price reform – The provision will allow Medicare to negotiate the price of certain prescription drugs, helping reduce costs for people who use these drugs. Medicare recipients will have a $2,000 cap on annual out-of-pocket prescription drug costs, starting in 2025.
- IRS tax enforcement – The legislation would invest millions into the IRS to help the agency track funds and deliver on its duties. That money along with other planned spending on the agency is expected to bring in $124 billion over the next 10 years.
- Affordable Care Act (ACA) subsidy extension – These subsidies, which were scheduled to expire at the end of this year, will be extended through 2025. Approximately three million Americans could lose their health insurance if these subsidies weren't extended, according to the U.S. Department of Health and Human Services.
- Energy security and climate change investments – The bill includes numerous investments in climate protection, including tax credits for households to offset energy costs, investments in clean energy production and tax credits aimed at reducing carbon emissions.

The Securing a Strong Retirement Act of 2022 (H.R. 2954)

The goal of this legislation is to increase retirement savings and simplify and clarify retirement plan rules. The "Secure Act 2.0" passed the U.S. House of Representatives in March 2022; Congress is expected to vote on a final measure before the end of 2022. Here is a summary of likely changes to company retirement plan requirements and their benefits to employees and employers.

- Larger tax credit for small businesses with up to 50 employees. The bill increases the tax credit to 100% of qualified start-up costs and provides for an additional credit for five years of up to $1,000 per employee equal to the applicable percentage of eligible employer contributions to an eligible employer plan (nor including a defined benefit plan). The credit is phased out for employers with 51-100 employees.
- Less difficult administrative requirements and reduced reporting and disclosure notices.
- Requires automatic enrollment for certain employers with 401(k) or 403(b) plans. Employees would have the choice to opt out of enrollment.
- Increases the number of employees that qualify for the Saver's Credit and increases the catch-up contribution limits for employees ages 62-64.
- Helps those with student loan debt. The bill allows employers to match student loan payments (up to a certain percentage of the employee's salary) and deposit the funds in their retirement account.
- Improving access to annuities as retirement savings vehicle by relaxing requirements and required minimum distributions (RMDs).
- Delaying RMDs, which now starts at age 72, to age 73 by 2022, 74 by 2029, and 75 by 2032.

Tax Rates

2022 Estates and Trusts	
Rate %	Tax Brackets
10%	$0 - $2,750
24%	$2,751 - $9,850
35%	$9,851 - $13,450
37%	Over $13,450

2023 Estates and Trusts	
Rate %	Tax Brackets
10%	$0 - $2,900
24%	$2,901 - $10,550
35%	$10,551 - $14,450
37%	Over $14,450

Standard Deduction	2022	2023
Filing Status		
Singles and separate filers	$12,950	$13,850
Heads of households	$19,400	$20,800
Joint filers	$25,900	$27,700

2022 Individual Income Tax Rate Schedule				
Rate %	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
10%	$0 - $10,275	$0 - $14,650	$0 - $20,550	$0 - $10,275
12%	$10,276 - $41,775	$14,651 - $55,900	$20,551 - $83,550	$10,276 - $41,775
22%	$41,776 - $89,075	$55,901 - $89,050	$83,551 - $178,150	$41,776 - $89,075
24%	$89,076 - $170,050	$89,051 - $170,050	$178,151 - $340,100	$89,076 - $170,050
32%	$170,051 - $215,950	$170,051 - $215,950	$340,101 - $431,900	$170,051 - $215,950
35%	$215,951 - $539,900	$215,951 - $539,900	$431,901 - $647,850	$215,951 - $323,925
37%	Over $539,900	Over $539,900	Over $647,850	Over $323,925

2023 Individual Income Tax Rate Schedule				
Rate %	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
10%	$0 - $11,000	$0 - $15,700	$0 - $22,000	$0 - $11,000
12%	$11,001 - $44,725	$15,701 - $59,850	$22,001 - $89,450	$11,001 - $44,725
22%	$44,726 - $95,375	$59,851 - $95,350	$89,451 - $190,750	$44,726 - $95,375
24%	$95,376 - $182,100	$95,351 - $182,100	$190,751 - $364,200	$95,376 - $182,100
32%	$182,101 - $231,250	$182,101 - $231,250	$364,201 - $462,500	$182,101 - $231,250
35%	$231,251 - $578,125	$231,251 - $578,100	$462,501 - $693,750	$231,251 - $346,875
37%	Over $578,125	Over $578,100	Over $693,750	Over $346,875

2022 Long-Term Capital Gains Tax Rate Schedule					
Rate %	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately	Estates and Trusts
0%	$0 - $41,675	$0 - $55,800	$0 - $83,350	$0 - $41,675	$0 - $2,800
15%	$41,676 - $459,750	$55,801 - $488,500	$83,351 - $517,200	$41,676 - $258,600	$2,801 - $13,700
20%	Over $459,750	Over $488,500	Over $517,200	Over $258,600	Over $13,700

2023 Long-Term Capital Gains Tax Rate Schedule					
Rate %	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately	Estates and Trusts
0%	$0 - $44,625	$0 - $59,750	$0 - $89,250	$0 - $44,625	$0 - $3,000
15%	$44,626 - $492,300	$59,751 - $523,050	$89,251 - $553,850	$44,626 - $276,900	$3,001 - $14,650
20%	Over $492,300	Over $523,050	Over $553,850	Over $276,900	Over $14,650

We are here to help you

The above highlights some of the key year-end tax planning areas for consideration along with changes from the various legislative Acts. Since all these provisions together can be complex, we suggest that you speak with your tax advisor about which strategies may work for your specific case. It is also helpful that an analysis be performed using tax software to calculate your approximate 2022 tax liabilities between now and the end of the year.

Please visit our website at www.estwa.com for more information and contact our office if you have any specific questions or need further guidance. Call us at (301).924-2160 or reach out to any member of the EagleStone tax team directly. We appreciate the opportunity to be of service to you.

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