November 1, 2022

Dear Client,

With year-end approaching, it is time to start thinking about moves that may help lower your tax bill for this year and next. This year's planning is more challenging than usual due to recent changes made by the Inflation Reduction Act of 2022 and the potential change in congressional balance of power resulting from the midterm elections.

Whether or not tax increases become effective next year, the standard year-end approach of deferring income and accelerating deductions to minimize taxes will continue to produce the best results for all but the highest income taxpayers, as will the bunching of deductible expenses into this year or next to avoid restrictions and maximize deductions.

If proposed tax increases do pass, however, the highest income taxpayers may find that the opposite strategies produce better results: Pulling income into 2022 to be taxed at currently lower rates, and deferring deductible expenses until 2023, when they can be taken to offset what would be higher-taxed income. This will require careful evaluation of all relevant factors.

We have compiled a list of actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all of them will apply to you, but you (or a family member) may benefit from many of them. Please review the following list and contact us if you have any questions:

- If you believe a Roth IRA is better for you than a traditional IRA, consider converting traditional-IRA money invested in any beaten-down stocks (or mutual funds) into a Roth IRA in 2022 if eligible to do so. Keep in mind that the conversion will increase your income for 2022, possibly reducing tax breaks subject to phaseout at higher AGI levels. This may be desirable, however, for those potentially subject to higher tax rates under pending legislation.

- It may be advantageous to try to arrange with your employer to defer, until early 2023, a bonus that may be coming your way.

- Many taxpayers won't want to itemize because of the high basic standard deduction amounts that apply for 2022 ($27,700 for joint filers, $13,850 for singles and for marrieds filing separately, $20,800 for heads of household), and because many itemized deductions have been reduced or abolished, including the $10,000 limit on state and local taxes; miscellaneous itemized deductions; and non-disaster related personal casualty losses. You can still itemize medical expenses that exceed 7.5% of your AGI, state and local taxes up to $10,000, your charitable contributions, plus mortgage interest deductions on a restricted amount of debt, but these deductions won't save taxes unless they total more than your standard deduction.

- Some taxpayers may be able to work around these deduction restrictions by applying a bunching strategy to pull or push discretionary medical expenses and charitable contributions into the year where they will do some tax good. For example, a taxpayer who will be able to itemize deductions this year but not next will benefit by making two years' worth of charitable contributions this year. The COVID-related increase for 2022 in the income-based charitable deduction limit for cash contributions from 60% to 100% of MAGI assists in this bunching strategy.

- Consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase your 2022 deductions even if you don't pay your credit card bill until after the end of the year.

- Required minimum distributions RMDs from an IRA or 401(k) plan (or other employer-sponsored retirement plan) have not been waived for 2022. If you were 72 or older in 2022 you must take an RMD. Those who turn 72 this year have until April 1 of 2023 to take their first RMD but may want to take it by the end of 2022 to avoid having to double up on RMDs next year.

- If you are age 70½ or older by the end of 2022, and especially if you are unable to itemize your deductions, consider making 2022 charitable donations via qualified charitable distributions from your traditional IRAs. These distributions are made directly to charities from your IRAs, and the amount of the contribution is neither included in your gross income nor deductible on Schedule A, Form 1040. However, you are still entitled to claim the entire standard deduction.

- Consider increasing the amount you set aside for next year in your employer's FSA if you set aside too little for this year and anticipate similar medical costs next year.

- If you become eligible in December of 2022 to make HSA contributions, you can make a full year's worth of deductible HSA contributions for 2022. If eligible, we strongly recommend maxing out contributions to HSA accounts as contributions offer a triple tax advantage (tax-deductible deposits, tax free growth, tax free distributions).

- Make gifts sheltered by the annual gift tax exclusion before the end of the year if doing so may 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.

- If you were in a federally declared disaster area, you may want to settle an insurance or damage claim in 2022 to maximize your casualty loss deduction this year.

These are just some of the year-end steps that can be taken to save taxes. Again, by contacting us, we can tailor a particular plan that will work best for you.

Sincerely,

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