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6 Personal Tax Savings Steps to Take Now — Before End of Year 2022

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For better or worse, 2022 is coming to an end. Halloween hasn't even arrived yet, and we're already seeing Christmas decorations on display at Walmart and other major retailers. Always a sign that tax season is fast approaching.

As the big box stores ramp up for the fall and winter holidays, our focus is on projecting what our clients will be required to pay in federal, state, and local income taxes – and, more important, helping them minimize their tax liability.

The good news is that making year-end tax projections for 2022 will probably be less complicated than in recent years. The Inflation Reduction Act of 2022, which was signed into law in August this year, was a slender version of the tax changes that were initially proposed, and with midterm elections just around the corner, members of Congress aren't likely to stir the pot by introducing any new tax legislation.

While we think it's unlikely that individual income tax rates are going to increase soon, if any tax legislation does occur in 2023, we believe the changes are likely to be forward-looking. That being said, when it comes to Congress, we can't predict anything with certainty.

Continued onto next page

What we can do is provide individual filers with tax-savings guidance you can count on and start to put into action right now.

Step 1: Look for ways to defer taxable income.

Deferring taxable income (which includes accelerating deductions) is usually a good idea, especially in an inflationary environment. It allows you to hold onto your money longer and pay your taxes with devalued dollars later. If we were expecting federal income tax rates to increase soon, we might not be so quick to recommend deferring taxable income, but we're not expecting income tax rates to rise until at least 2025.

Of course, you may have to make 2023 estimated tax payments or increase your estimated tax payments to cover income or gains that you defer until 2023, but how you calculate your 2023 estimated tax payments can make a difference. You have two options. You can base your 2023 tax payments (estimated taxes and withholding) on the lesser of the following:

- Your 2022 tax liability [110 percent of that amount if your 2022 AGI is more than $150,000, or $75,000 if you're married filing single]
- 90 percent of your 2023 tax

If you can base your 2023 payments on your 2022 tax amount, you can postpone the tax on deferred gains or large income amounts recognized in 2023 to April 15, 2024.

Step 2: Consider selling some investment assets.

Look at your investment portfolio to see if selling any investments before year-end makes tax sense. If you have recognized capital losses this year (or capital loss carryovers from previous years), you can use those losses to shelter any 2022 capital gains. This strategy enables you to sell some winners before year-end without increasing your 2022 tax liability.

Using short-term capital losses to shelter short-term capital gains is tax-smart because otherwise your short-term gains would be taxed at ordinary income tax rates.

Even if you don't have capital gains to shelter this year, selling some underperforming assets could make sense, especially if you think they will continue to decline in value. The result would be a net capital loss for the year, which can be used to shelter up to $3,000 ($1,500 if you're married filing separately) of 2022 ordinary income from salaries, bonuses, self-employment income, interest income, etc. Any excess net capital loss from this year is carried forward indefinitely.

Step 3: Bundle itemized deductions to maximize their value.

When you file your federal income tax return, you have the option of itemizing deductions or taking the standard deduction which, for 2022, is one of the following amounts:

- $25,900 for joint filers
- $12,950 for single taxpayers (including married taxpayers filing separately)

For most taxpayers, the standard deduction exceeds the total of their itemized deductions, so

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it doesn't pay to itemize. However, if your total annual itemizable deductions for 2022 will be close to your standard deduction amount, you may want to look for ways to bundle deductible expenses in the future to take advantage of itemized deductions.

For example, assume you're married filing jointly and your itemized deductions are around $25,000 per year. Instead of paying $25,000 in deductible expenses in 2022 and then again in 2023, you pay $20,000 in 2022 and $30,000 in 2023. In 2022, you claim the standard deduction of $25,900, but in 2023, you claim an itemized deduction of $30,000.

Step 4: Save taxes while donating to charitable organizations.

If you're looking to donate money or other assets to worthy causes, do so in a way that's tax-smart. Here are a few suggestions:

- Maximize the tax benefit of your charitable contributions by giving through a donor-advised fund. These funds enable you to make charitable contributions to a specific public charity or community foundation that receives grant requests from charities. Donors can suggest which grant requests to approve. Taxpayers can claim the charitable tax deduction in the year they contribute, even though the funds may not be transferred to specific charities until future years.
- Donate appreciated assets that you held for over a year. If you give such assets to a public charity, you can deduct the full fair market value of the donated asset while avoiding the tax you would have paid had you sold the asset and donated the cash to the charity.
- If you're age 70 1/2 or older, consider a direct transfer from your IRA to a charity – a Qualified Charitable Distribution (QCD). While you will not be able to claim a charitable donation for the amount transferred to the charity, the QCD counts toward your Required Minimum Distribution (RMD), which isn't treated as income. Assuming you don't itemize, that's better than taking a fully taxable RMD and then donating the amount to charity.

Step 5: Take advantage of the annual gift tax exclusion.

The tax exclusion for estate, gift, and generation skipping transfer is scheduled to drop from $12.06 million ($24.12 million for married couples) in 2022 to $5 million ($10 million for married couples) in 2026. Those amounts will be adjusted for inflation, but many estates that would have escaped this taxation in the past will be subject to it after 2025.

If you think your estate may be taxable, annual exclusion gifts (perhaps to children or grandchildren) are an easy way to reduce your estate. The annual gift exclusion allows for tax-free gifts that don't count toward your lifetime gifting exemption. For 2022, you can make annual exclusion gifts up to $16,000 per donee, with no limit on the number of recipients of the gift. If you're married, you and your spouse can elect to gift split, so that a gift that either one of you makes is treated as if it were made one half by each of you.

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Step 6: Consider intrafamily loans instead of taxable gifts.

An intrafamily loan is a tax-smart way to assist family members financially. Instead of giving family members money, which may result in a taxable gift, you loan them the money at a lower interest rate than they can qualify for through most commercial lending institutions.

You just need to be sure that you charge interest at least equal to the Applicable Federal Rate (AFR), which is published by the IRS each month.

These six steps should give you plenty to think about and prepare for in anticipation of your 2022 Year-End Tax Planning Meeting.

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