2022 Year-End Tax Update

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GODSEY & GIBB
WEALTH MANAGEMENT

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Agenda

- **CURRENT TAX LAW**
  - Tax Cuts and Jobs Act
  - SECURE ACT
  - Inflation Reduction Act
- **PROPOSED IRS REGULATIONS REGARDING RMDs**
- **PLANNING STRATEGIES FOR 2022**
- **SUMMARY**

Current Tax Law

Tax Cuts and Jobs Act, SECURE Act & Inflation Reduction Act

Tax Cuts and Jobs Act (TCJA)

- Currently effective through 2025
- Top individual tax rate is 37%
- Preferential qualified dividends and long-term capital gains tax rates (0%, 15%, 20%) still apply
- 20% Qualified Business Income (QBI) Deduction for certain passthrough entities

2022 Ordinary Income Tax Rates

RATE	FOR SINGLE INDIVIDUALS	FOR MARRIED INDIVIDUALS FILING JOINT RETURNS	FOR HEADS OF HOUSEHOLD
10%	Up to $10,275	Up to $20,550	Up to $14,650
12%	$10,276 to $41,775	$20,551 to $83,550	$14,651 to $55,900
22%	$41,776 to $89,075	$83,551 to $178,150	$55,901 to $89,050
24%	$89,076 to $170,050	$178,151 to $340,100	$89,051 to $170,050
32%	$170,051 to $215,950	$340,101 to $431,900	$170,051 to $215,950
35%	$215,951 to $539,900	$431,901 to $647,850	$215,951 to $539,900
37%	$539,901 or more	$647,851 or more	$539,901 or more

Source: Internal Revenue Service

2022 Long-Term Capital Gains Tax Rates

	TAXABLE INCOME OVER:		
RATE	**FOR SINGLE INDIVIDUALS**	**FOR MARRIED INDIVIDUALS FILING JOINT RETURNS**	**FOR HEADS OF HOUSEHOLD**
0%	$0	$0	$0
15%	$41,675	$83,350	$55,800
20%	$459,750	$517,200	$488,500

Source: Internal Revenue Source

- Rates are based on taxable income amounts, not specific ordinary income tax rates
- The 3.8% net investment income (NII) surtax also applies for high-income taxpayers

2022 Standard Deduction Amounts

TCJA: NO PERSONAL EXEMPTION, BUT STANDARD DEDUCTION DOUBLED

SINGLE

- $12,950 (standard)
- $14,700 (age 65+ or blind)

HEAD OF HOUSEHOLD

- $19,400 (standard)
- $21,150 (age 65+ or blind)

MARRIED FILING JOINTLY

- $25,900 (standard)
- +$1,400 each (age 65+ or blind)

Tax Cuts and Jobs Act

ALLOWABLE ITEMIZED DEDUCTIONS:

- Medical expenses deductible to the extent expenses exceed 7.5% of adjusted gross income (AGI)
- State and local tax deduction limited to $10,000
- Mortgage interest deduction limited to balances of $750,000 originating after December 15, 2017 ($1 million balance limit still applies to pre-December 15th mortgages)
- Cash charitable contribution deduction limit raised from 50% to 60% of AGI
- No miscellaneous itemized deductions (i.e., tax prep fees, investment management fees, unreimbursed employee expenses)

Net Investment Income (NII) Tax (3.8%)

NII INCLUDES NET INCOME FROM:

- Taxable interest
- Dividends
- Capital gains
- Rents
- Royalties
- Other passive business activities

AFFECTED INDIVIDUALS INCLUDE:

Those whose modified adjusted gross income (MAGI)* exceeds:

- $200,000 filing single
- $250,000 married, filing jointly
- $125,000 married, filing separately

*Generally, MAGI is the same as AGI, but may be higher if you have foreign earned income and certain foreign investments

Net Investment Income (NII) Tax (3.8%)

THE NII TAX CALCULATED ON THE LESSER OF:

- Your NII, or
- The amount by which your MAGI exceeds $200,000 if filing single, $250,000 if married filing jointly, and $125,000 if married filing separately

EXAMPLES:

FILING STATUS	Single	Married filing jointly
MAGI	$250,000	$350,000
NII	$75,000	$75,000
ACTUAL NII TAX	~~3.8% x $75,000 = $2,850~~ **3.8% x $50,000 ($250,000-$200,000) =$1,900**	**3.8% x $75,000=$2,850** ~~3.8% x $100,000 ($350,000-$250,000) =$3,800~~

The SECURE Act

THE SETTING EVERY COMMUNITY UP FOR RETIREMENT ENHANCEMENT ("SECURE") ACT OF 2019

TRADITIONAL IRA CONTRIBUTIONS

- No age 70 ½ limit on contributions for taxable years beginning January 1, 2020
- Compensation is still required

REQUIRED MINIMUM DISTRIBUTIONS (RMDs)

- RMDs must start by April 1 of the year after the year in which you reach age 72
- If not 70 ½ prior to January 1, 2020, RMDs will start at age 72

"STRETCH IRA" DISTRIBUTIONS

- Distribution periods are limited
- Similar rules for tax-qualified plan beneficiaries

The SECURE Act

BENEFICIARY DISTRIBUTIONS

Timeline to distribute funds:

SPOUSE	NON-SPOUSE	TRUSTS	ESTATE
Life expectancy (can treat as their own IRA)	10 years	10 years	5 years

The SECURE Act

BENEFICIARY DISTRIBUTIONS – PROPOSED REGULATIONS

- Timeline to Distribute Funds:
  - IRS issued proposed regulations in February 2022
  - Non-spouse beneficiaries must take annual RMD over 10 years
  - Calculation of RMD not specified
  - Still have option to defer distributions until proposed regulations are final and signed into law

The CARES Act

THE CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ("CARES") ACT

- An emergency relief package enacted in response to the COVID-19 pandemic - signed into law on March 27, 2020
- Provided significant financial relief (including tax relief) and assistance to individuals and businesses
- Many provisions expired at the end of 2021
    - Student loan payment pause was extended to December 31, 2022

The Inflation Reduction Act of 2022

THE INFLATION REDUCTION ACT

- Signed into law on August 16, 2022
- Objectives:
  - To lower prescription drug costs, health care costs, and energy costs
  - To address climate change
  - To increase taxes paid by corporations and the “ultra-wealthy”
- Individual income tax provisions primarily focus on clean energy credits, many effective beginning January 1, 2023

The Inflation Reduction Act of 2022

ENERGY EFFICIENT HOME IMPROVEMENT CREDIT

Nonbusiness Energy Property Credit extended through 2032 and renamed the Energy Efficient Home Improvement Credit

- In 2022, old credit rules apply – amounts vary based on types of improvements
  - Essentially limited to a lifetime maximum of $500 for all eligible improvements
- Starting in 2023, the credit will be equal to 30% of the costs of eligible home improvements, for an annual maximum of $1,200 for all eligible improvements (vs. a limited lifetime credit)
  - Annual limits include qualifying:
    - Exterior doors ($250 each, max $500);
    - Exterior windows and skylights ($600);
    - “Other qualified energy property,” including central air conditioners; electric panels and certain related equipment; natural gas, propane, or oil water heaters; oil furnaces; water boilers ($600)

The Inflation Reduction Act of 2022

ENERGY EFFICIENT HOME IMPROVEMENT CREDIT (CONTINUED)

Nonbusiness Energy Property Credit extended through 2032 and renamed the Energy Efficient Home Improvement Credit

- Also starting in 2023, there is an annual limit of $2,000 for qualifying heat pumps, water heaters, biomass stoves, and boilers
  - This category is not limited by the $1,200 credit on the last slide
- After 2024, no credit will be allowed unless the manufacturer of any purchased item creates a product ID number for the product, and the taxpayer includes this number on their tax return for that year

The Inflation Reduction Act of 2022

RESIDENTIAL CLEAN ENERGY CREDIT

The Residential Energy Efficient Property Credit, scheduled to expire in 2023, has been renamed the Residential Clean Energy Credit and extended through 2034

- In 2022, old credit rules apply – 26% of the cost of installing qualified solar-powered property (e.g. solar panels) to your home
- Starting in 2023, the amount of credit as a percentage of the cost will be:
  - 30% for 2023-2032
  - 26% for 2033
  - 22% for 2034
- Starting in 2023, the credit will no longer apply to solar biomass furnaces and solar water heaters, as they will be covered under the Energy Efficient Home Improvement Credit
- This credit will apply to battery storage with a capacity of at least three kilowatt hours

The Inflation Reduction Act of 2022

CLEAN VEHICLE CREDIT

Extends the new qualified plug-in electric drive motor vehicle credit (now called the Clean Vehicle Credit) until the end of 2032 and creates new credits for previously-owned clean vehicles and qualified commercial clean vehicles

- Takes effect for clean vehicles purchased after December 31, 2022
  - New qualified clean vehicles – up to $7,500
  - New qualified commercial clean vehicles over 14,000 pounds – up to $40,000
  - Previously-owned clean vehicles – up to the lesser of 30% of the price or $4,000
- Several limitations for the credit apply based on the retail price of the vehicle and based on your adjusted gross income (AGI)

Planning Strategies - 2022

Planning Strategies 2022

Current Tax Law Strategy Considerations

MAXIMIZE RETIREMENT PLAN AND IRA CONTRIBUTIONS (PRE-TAX OR ROTH)

- Employee elective deferral limit is $20,500 to 401(k) and 403(b) plans
  - Increased to $22,500 for 2023
  - Plus $6,500 catch-up contributions if over age 50 ($7,500 in 2023)
  - Overall annual limit $61,000 or $67,500 if over age 50 ($66,000 and $73,500 in 2023)
- SEP IRA Contributions (employer only) cannot exceed the lesser of:
  - 25% of the employee's compensation, or
  - $61,000 with no catch-up contributions available ($66,000 in 2023)
- Traditional and Roth IRA contributions limited to $6,000 ($6,500 in 2023)
  - Plus $1,000 catch-up contributions if over age 50

Current Tax Law Strategy Considerations

ROTH IRA CONVERSIONS AND/OR PRE-RMD DISTRIBUTIONS FROM TRADITIONAL IRAs MAY BE TAX-EFFICIENT UNDER CURRENT TAX RATES

CONSIDERATIONS:

- **Cash flow:**
  - Is the distribution needed to cover living expenses?
  - Do I have outside cash to pay taxes on conversion?
- **Timing (especially for first-time RMD):**
  - What will my income look like in 2022 if I take an IRA distribution or convert to a Roth IRA?
- **Other assets and taxable-income sources:**
  - Interest and dividends
  - Pension
  - Social Security (and impact on Medicare premiums)

Current Tax Law Strategy Considerations

LONG-TERM CAPITAL GAINS

- Realize long-term capital gains at 0%/15% tax rate, harvest losses when appropriate

ITEMIZED DEDUCTIONS VS. STANDARD DEDUCTION

- Standard deduction is more prevalent, but it may be worthwhile to compile your itemized deductions for the additional tax benefit

CHARITABLE CONTRIBUTIONS

- "Bunch" charitable contributions in alternate years
- Donate appreciated stock – either directly or using a donor-advised fund

Current Tax Law Strategy Considerations

MEDICAL EXPENSES

- “Bunch” medical expenses into alternate years when possible
- Contribute to a Health Savings Account (HSA) and use it to pay medical expenses
    - High-deductible health plan required - $1,400 single / $2,800 family
    - HSA contribution limits for 2022 are:
        - Self-only - $3,650 ($3,850 in 2023)
        - Family - $7,300 ($7,750 in 2023)
        - Catch-up contribution (age 55+) - $1,000

EVALUATE TIMING OF TRANSACTIONS ELIGIBLE FOR TAX CREDITS

- Consider the existing clean energy credits vs. those available beginning in 2023 to determine which provides the most benefit and how to time your purchase if practical

Current Tax Law Strategy Considerations

QUALIFIED CHARITABLE DISTRIBUTIONS

- Take Qualified Charitable Distributions ("QCDs") from your IRA
  - Must be over 70 ½ on the date the QCD is made
  - Funds must go directly from the IRA to the charity
  - Maximum $100,000 per year, and is counted towards your RMD (if applicable)

INVESTMENT MANAGEMENT FEES

- Pay your IRAs management fees directly from your IRA, instead of from a separate taxable account, since no fees are longer deductible
  - Essentially allows for tax-free distributions from IRA
  - Only the fees related to the specific IRA can be deducted directly from the IRA as a tax-free transaction

Current Tax Law Strategy Considerations

CHECK IN WITH YOUR CPA/TAX PREPARER

- Discuss your 2022 expected income and deductions to this point with your CPA/tax preparer, to determine if any quarterly estimated tax payment adjustments are needed
  - Is your actual 2022 situation as expected and/or previously estimated?
    - Check 4th quarter estimated payment amount for adequacy
    - Common variable items include:
      - Realized capital gains (YTD and projected)
      - IRA distributions
      - Medical expenses
      - A move to another state
      - Changes in income sources due to retirement
  - Withhold taxes from your IRA distributions in lieu of separate payments, if applicable

IRS withholding estimator: https://www.irs.gov/individuals/tax-withholding-estimator

Estates & Trust Tax Overview

Current Tax Law & Strategy Considerations

Estate & Trust Tax Overview

- 4 income tax rates for estates and trusts: 10%, 24%, 35%, and 37%
  - Top income tax rate of 37% is reached at taxable income over $13,450
- Preferential qualified dividend and long-term capital gains rates (0%/15%/20%) still apply
  - 0% up to $2,800
  - 20% rate is reached at taxable income over $13,700
  - NII Tax is 3.8% of the lesser of:
    - Undistributed net investment income, or
    - The excess of the trust's AGI over the dollar amount at which the highest tax bracket begins for the tax year ($13,450)

Estate & Trust Tax Overview

- For estates of decedents dying and gifts made on January 1, 2018 through December 31, 2025, the Act doubles the base estate and gift tax exemption amount (indexed for inflation) to $12.06 million in 2022 ($24.12 million per married couple)
  - Increases to $12.92 million ($25.84 million per married couple) in 2023
  - Estate tax rate is 40%
- Annual gift exclusion amount increased to $16,000 per gift recipient in 2022 ($17,000 in 2023)
- There are fewer taxable estates with the new exemption amounts, but gifting is still important, especially if old exemptions are reinstated in 2026, or repealed by any laws enacted before 2026

Estate & Trust Tax Strategy

TAKE ADVANTAGE OF ANNUAL GIFT EXCLUSION

- Gift up to $16,000 per recipient, or $32,000 if the gift is split between spouses to reduce your taxable estate
- With 529 Education Savings Plans, you can gift up to $80,000
  - Can elect to treat the gift as having been made over the next five years
  - Allows a sizable gift in 2022, a possible state tax deduction, and not reducing your lifetime exemption amount

CONSIDER IRREVOCABLE TRUSTS

- Consider setting up and funding irrevocable trusts for the benefit of heirs

Note: Heirs will receive a step-up in basis on inherited assets in taxable accounts vs. gifting

Estate & Trust Tax Strategy

CONSIDER DECEASED SPOUSE'S UNUSED EXEMPTION (DSUE) PORTABILITY

- A DSUE amount of up to $12.06 million is "portable," meaning it can be added to the surviving spouse's lifetime exemption amount
  - This can potentially make the surviving spouse's lifetime exemption amount a maximum of $24.12 million
  - To claim, the executor of the deceased spouse's estate must file a Form 706 United States Estate Tax Return and elect portability for the DSUE to be transferred to the surviving spouse.
    - Form 706 filing deadline is generally 9 months from the date of death, with an automatic 6-month extension (extension filing required)

Estate & Trust Tax Strategy

REVISIT YOUR ESTATE PLANNING DOCUMENTS (WILLS, TRUSTS) WITH YOUR ESTATE ATTORNEY TO ENSURE THAT THEY ACCURATELY REFLECT YOUR INTENTIONS UNDER CURRENT LAW

Summary

Reviewing Current Tax Law and Planning Strategies

Summary

- Roth IRA conversions and Traditional IRA distributions may be more tax-efficient under the current tax bracket structure
- While working, maximize contributions to your retirement plan and IRA
- Realized long-term capital gains and qualified dividends are taxed at lower rates, but also be aware of other income and the NII tax, as well as any impact on Medicare premiums
- Itemizing your deductions may still be valuable, depending on amounts and timing, so review them before taking the standard deduction
- If you are considering the purchase of clean energy home improvements or an electric vehicle, understand the credits available to you in 2022 vs. 2023 (and beyond) and time your purchases accordingly

Summary (Continued)

- Consider various charitable gifting strategies (cash, appreciated stock, QCDs) to maximize the tax benefit while meeting your philanthropic objectives
- Review your 2022 tax withholding and quarterly estimated tax payment amounts, and adjust if necessary
- Estate planning is critical. Consider:
  - Creating irrevocable trusts (including irrevocable grantor trusts) and other gifting strategies
  - Electing portability for a deceased spouse’s unused exemption amount
  - Updating your existing estate and trust documents to reflect current tax laws and prepare for potential tax law changes with your estate attorney

Questions?

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