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How Will IRS Inflation Adjustments Impact Your 2022 Tax Year Returns?

During the last few months of 2021, the IRS issued Rev. Proc. 2021-45, adjusting for inflation a wide array of amounts applicable to the 2022 tax year for use with individual, business and estate and trust returns and related tax issues. This was partially due to the rising inflation rate, which has drastically risen from 1.7% in November 2020 to 7.04% in December 2021, just a year later, and the latest results that are available on [inflationdata.com](https://www.inflationdata.com). Below we discuss how these changes may affect your 2022 tax returns.

Under Rev. Proc. 2021-45, the amounts that are under the 62 Code sections have been updated. However, the IRS has also cautioned that some of the legislation that is pending before Congress may also impact 2022 tax returns. For this reason, it recommends that taxpayers continue to consult additional IRS guidance that comes out during the tax year so that they can determine whether the adjusted amounts found in Rev. Proc. 2021-45 will still be applicable through 2022.

Among the most common figures that will be referenced on this Rev. Proc. are the income tax tables that will be used by individuals, estates and trusts, especially those that will have tax bracket thresholds that are higher than they were in 2021. As an example, the lowest bracket for single individuals outside of heads of household and surviving spouses, which reflects a 10% tax on taxable income, has a 2022 ceiling of \$10,275, which reflects a \$325 increase from 2021's \$9,950 ceiling.

You can also expect to see a change to the standard deduction. It's expected that single taxpayers and married taxpayers filing separately will see increases from \$12,550 to \$12,950, married taxpayers filing jointly will see an increase from \$25,100 to \$25,900, and heads of household will see an increase from \$18,800 to \$19,400. However, these are the only the main changes; there are other amounts that have changed that you should consider.

To start, the unearned income of minor children or "kiddie tax," used to reduce a child's net unearned income, will increase to \$1,150. The maximum capital gains 0% rate will reach \$83,350 for married filing jointly, \$41,675 for single and married filing separately, \$55,800 for heads of household and \$2,800 for estates or trusts. Similarly, the 15% maximum capital gains rate will be at \$517,200 for married filing jointly, \$258,600 for married filing separately, \$488,500 for heads of household, \$459,750 for singles and \$13,700 for estates or trusts.

The alternative minimum tax exemption also has seen changes. It's now \$118,100 for married filing jointly or surviving spouses, \$75,900 for singles, \$59,050 for married filing separately and \$26,500 for estates or trusts. Certain elementary and secondary teacher expense deductions have been raised to \$300, and cafeteria plans have had their dollar limitation for the voluntary employee salary reductions for health flexible spending arrangement contributions changed to \$2,850.

But what about Section 199A deductions for your qualified business income? The threshold amount has been changed to \$340,100 for married couples who file jointly and \$170,050 for all others. At the same time, the phase-in range amount has changed to \$440,100 for married filing jointly and \$220,050 for all other classes.

Interest on your educational loans will now start to phase out when modified adjusted gross income, or MAGI, exceeds \$70,000 for single and married filing separately, or \$145,000 for joint returns, while phasing out completely when MAGI reaches \$85,000 for single and married filing separately or \$175,000 for married filing jointly.

Limitations have also been placed on the use of cash accounting methods. In the past, it's been at a lower amount, but the increase in inflation has caused the gross receipts test under Section 448(c), which is also applicable to many other business provisions, to be met when annual gross receipts for the three-tax-year period that ends with the 2022 tax year do not exceed an average of \$27 million.

There are a few other changes that have also been updated due to inflation. For the foreign earned income exclusion, you may now exclude \$112,000. The unified credit against estate tax has had the basic exclusion amount for any decedents passing in 2022 increased to \$12,060. At the same time, the annual gift exclusion has risen to \$16,000 to anyone person being excluded from total taxable gifts as listed under Section 2503 when made during the 2022 tax year.

If you have any questions or are confused about how all of these changes might impact your bottom line, please contact any of our professionals at Frankel Zacharia, LLC, 402.496.9100.