FrankelZacharia LLC

Certified Public Accountants

December 2022

Dear Clients and Friends:

As another tumultuous year draws to a close, both individuals and small business owners are advised to assess their current tax situation, with an eye on maximizing available tax breaks and avoiding potential tax pitfalls. Planning should be based on the latest laws of the land.

Just look at the significant legislation enacted in recent years. Following the massive Tax Cuts and Jobs Act (TCJA) of 2017, the Coronavirus Aid, Relief, and Economic Security (CARES) Act addressed various pandemic-related issues in 2020. In quick succession, the Consolidated Appropriations Act (CAA) extended certain CARES Act provisions and modified others, while the American Rescue Plan Act (the ARPA) created even more tax-saving opportunities in 2021.

This series of new laws culminated in the Inflation Reduction Act (the IRA) passed in August. The IRA, which is generally effective next year, includes several provisions that could have a big tax impact on individuals and business entities.

And we still might not be done. More proposed legislation has been introduced in Congress. If another new law featuring tax provisions is enacted before 2023, it may require you to revise your year-end tax planning strategies.

Keeping all that in mind, we have prepared the following **2022 Year-End Tax Letter**. For your convenience, the letter is divided into three sections:

* Individual Tax Planning

* Business Tax Planning

* Financial Tax Planning

Be aware that the concepts discussed in this letter are intended to provide only a general overview of year-end tax planning. It is recommended that you review your personal situation with a tax professional.

INDIVIDUAL TAX PLANNING

Itemized Deductions

Due to several related provisions in the TCJA, generally effective for 2018 through 2025, more individuals are claiming the standard deduction in lieu of itemizing deductions.

TAX IDEA: Make a quick analysis of your situation. Depending on the results, you may decide to accelerate certain expenses into 2022 or postpone them to 2023.

For instance, you may want to "bunch" charitable donations in a year you expect to itemize deductions. (There is more on charitable deductions below.) Similarly, you might reschedule physician or dentist visits to provide the maximum medical deduction. The deduction for those expenses is limited to the excess above 7.5% of your adjusted gross income (AGI). If you do not have a reasonable shot at deducting medical and dental expenses in 2022, you might as well postpone non-emergency expenses to 2023.

Note that the TCJA made other significant changes to itemized deductions. This includes a $10,000 annual cap on deductions for state and local tax (SALT) payments and suspension of the deduction for casualty and theft losses (except for qualified disaster-area losses).

Year-end tip: The standard deduction for 2022 is generally $12,950 for single filers and $25,900 for joint filers.

Charitable Donations

If you still expect to itemize deductions in 2022, you may benefit from contributions to qualified charitable organizations made within generous tax law limits.

TAX IDEA: Step up your charitable gift-giving at year-end. As long as you make a donation in 2022, it is deductible on your 2022 return—even if you charge the donation by credit card as late as December 31.

Note that the deduction limit for monetary contributions was increased to 100% of AGI for 2021, but the limit reverted to 60% of AGI for 2022. Nevertheless, this still provides plenty of flexibility for most taxpayers. Any excess may be carried over for up to five years.

Furthermore, if you donate appreciated property held longer than one year (i.e., it would qualify for long-term capital gain treatment if sold), you can generally deduct an amount equal to the property's fair market value (FMV). But the deduction for short-term capital gain property is limited to your initial cost. Your annual deduction for property donations generally cannot exceed 30% of your AGI. As with monetary contributions, any excess may be carried over for up to five years.

Year-end tip: The CARES Act established a maximum deduction of $300 for charitable donations by non-itemizers in 2020. The special deduction was then extended to 2021 and doubled to $600 for joint filers. As of this writing, however, this tax break is not available in 2022.

Alternative Minimum Tax

The alternative minimum tax (AMT) calculation features several technical adjustments, inclusion of "tax preference items" and subtraction of an exemption amount (subject to a phase-out). After comparing AMT liability to regular tax liability, you effectively pay the higher of the two.

TAX IDEA: Have your AMT status assessed. If the results warrant it, you may want to shift certain income items to 2023 to reduce AMT liability for 2022. For instance, you might postpone the exercise of incentive stock options (ISOs) that count as tax preference items.

Fortunately, fewer taxpayers are now liable for the AMT, thanks mainly to changes in he TCJA. The chart below shows the exemption amounts since 2017.

Filing status	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Single filers	$54,300	$70,300	$71,700	$72,900	$73,600	$75,900
Joint filers	$84,500	$109,400	$111,700	$113,400	$114,600	$118,100
Married filing separately	$42,250	$54,700	$55,850	$56,700	$57,300	$59,050

Year-end tip: The AMT rates for single and joint filers for 2022 are 26% on AMT income up to $206,100 ($103,050 if married and filing separately) and 28% on AMT income above this threshold. Note that the top AMT rate is still lower than the top ordinary income tax rate of 37%.

Electric Vehicle Credits

The IRA green lights tax credits for purchasing electric vehicles (EVs) and plug-in hybrids over the next few years. But certain taxpayers will not qualify.

TAX IDEA: Map out your plans accordingly. For example you may prefer to buy a new EV in 2022 or 2023 or wait until next year to buy a used vehicle.

Notably, the IRA includes the following changes.

* The credit cannot be claimed by a single filer with a modified adjusted gross income (MAGI) above $150,000 or an MAGI of $300,000 for joint filers.

* The credit is not available for most passenger vehicles that cost more than $55,000; $80,000 for vans, sports utility vehicles (SUVs) and pickup trucks.

* The vehicle must be powered by batteries whose materials are sourced from the U.S. or its free trade partners and must be assembled in North America.

* The current threshold of 200,000 vehicles sold by a manufacturer is eliminated.

In addition, the IRA authorizes a credit of up to $4,000 for used vehicles if you are a single filer with an MAGI of no more than $75,000; $150,000 for joint filers.

Year-end tip: The vehicle threshold for manufacturers remains in effect in 2022.

Residential Energy Credits

The IRA generally enhances the residential energy credits that are currently available to homeowners.

TAX IDEA: Take the new rules into account. This may affect the timing of certain improvements you make to your home.

Under the new law, you may benefit from two types of residential energy credits.

1. The 30% "residential clean energy credit" can generally be claimed for installing solar panels or other equipment to harness renewable energy like wind, geothermal energy and biomass fuel. This credit, which was scheduled to phase out and end after 2023, is preserved at 30% from 2022 through 2032 before phasing out.

2. The 30% "energy efficient home improvement credit" can generally be claimed for up to $1,200 of the cost of installing energy-efficient exterior windows, skylights, exterior doors, water heaters and other qualified items through 2032 before phasing out. For 2022, the credit remains at 10% with a maximum of $500.

Year-end tip: Certain items have annual dollar caps. Contact your professional advisors for more details.

Miscellaneous

* Pay a child's college tuition for the upcoming semester. The amount paid in 2022 may qualify for one of two higher education credits, subject to phase-outs based on your MAGI. Note: The alternative tuition-and-fees deduction expired after 2020.

* Avoid an estimated tax penalty by qualifying for a safe-harbor exception. Generally, a penalty will not be imposed if you pay 90% of your current year's tax liability or 100% of your prior year's tax liability (110% if your AGI exceeded $150,000).

* Minimize kiddie tax problem by having your child invest in tax-deferred or tax-exempt securities. For 2022, unearned income above $2,300 that is received by a dependent child under age 19 (or under age 24 if a full-time student) is taxed at the top tax rate of the parents.

* Empty out flexible spending accounts (FSAs) for healthcare or dependent care expenses if you will forfeit unused funds under the "use-it-or-lose it" rule. However, your employer's plan may provide a carryover to 2023 of up to $570 of funds or a 2½-month grace period or both.

* Make home improvements that qualify for mortgage interest deductions as acquisition debt. This includes loans made to substantially improve your principal residence or one other home. Note that the TCJA suspended deductions for home equity debt for 2018 through 2025.

* If you own property damaged in a federal disaster area in 2022, you may qualify for quick casualty loss relief by filing an amended 2021 return. The TCJA suspended the deduction for casualty losses for 2018 through 2025, but retained a current deduction for disaster-area losses.

BUSINESS TAX PLANNING

Depreciation-Based Deductions

As we head into year-end, a business may benefit from one or more of three depreciation-based tax breaks: (1) the Section 179 deduction; (2) first-year "bonus" depreciation; and (3) regular depreciation.

TAX IDEA: Place qualified property in service before the end of the year. If your business does not start using the property before 2023, it is not eligible for these tax breaks.

1. Section 179 deduction: Under Section 179 of the tax code, a business may "expense" (i.e., currently deduct) the cost of qualified property placed in service anytime during the year. The maximum annual deduction is phased out on a dollar-for-dollar basis above a specified threshold. The chart below shows the progression of the allowance and phase-out since 2010.

Tax year	Deduction limit	Phase-out threshold
2010–2015	$500,000	$2 million
2016	$500,000	$2.01 million
2017	$510,000	$2.03 million
2018	$1 million	$2.50 million
2019	$1.02 million	$2.55 million
2020	$1.04 million	$2.59 million
2021	$1.05 million	$2.62 million
2022	$1.08 million	$2.70 million

However, be aware that the Section 179 deduction cannot exceed the taxable income from all your business activities this year. This could limit your deduction for 2022.

2. First-year bonus depreciation: The TCJA authorized a 100% first-year bonus depreciation deduction through 2022. This includes used, as well as new, property.

3. Regular depreciation: If any remaining acquisition cost remains, the balance may be deducted over time under the Modified Accelerated Cost Recovery System (MACRS).

Year-end tip: The first-year bonus depreciation deduction is scheduled to phase out over five years, beginning in 2023. Take full advantage while you can.

Payroll Tax Deferrals

Under the CARES Act, an employer could defer its share of the Social Security tax portion of payroll taxes due for March 27, 2020, through December 31, 2020. The first half of the deferred amount was due at the end of 2021.

TAX IDEA: Do not neglect to pay the second half of the deferred tax. This payment is due by January 3, 2023. If your business does not remit the payroll taxes in time, it will owe a penalty equal to 10% of the entire deferral amount. Furthermore, if it does not deposit the taxes within ten days of the IRS issuing a notice, the penalty is increased to 15%.

Note that the ARPA extended the payroll tax deferral break for wages paid from January 1, 2021 through December 31, 2021.

Year-end tip: There is no payroll tax deferral for wages paid in 2022. So, your business must meet its regular payroll obligations in addition to paying any deferred tax that is due.

Start-up Costs

Normally, the costs associated with the start-up of a new business venture must be amortized over 180 months. However, the tax law allows an entrepreneur to claim a current deduction of up to $5,000 for qualified start-up costs. The $5,000 write-off is phased out for costs above $50,000.

TAX IDEA: Make sure you are "open for business" before January 1, 2023. Typically, this means you must begin offering goods or services. Otherwise, you cannot claim the current $5,000 deduction.

Generally, start-up costs are those that would be deductible as business expenses, such as:

* An analysis of potential markets, products, labor supply, transportation facilities, etc.

* Advertisements for the opening of the business.

* Salaries and wages for employees who are being trained and those instructing them.

* Travel costs to secure prospective distributors, suppliers, customers or clients.

* Salaries and fees for executives and consultants or similar professional services.

Year-end tip: In addition, you may be entitled to a current deduction of up to $5,000 for qualified organizational expenses (e.g., expenses of a CPA).

Business Meals

Previously, a business could deduct 50% of the cost of its qualified business entertainment expenses. However, the deduction for entertainment costs, including strictly social meals preceding or following a "substantial business discussion," was eliminated by the TCJA, beginning in 2018.

TAX IDEA: Current law still permits deductions for certain business meals if you have the records needed to support your claims. Plus, your business may benefit from an enhanced deduction this year.

For starters, a business can deduct meal expenses of employees traveling away from home on business. In addition, the cost of food and beverages associated with entertainment such as sporting events and concerts may be deductible if the food and beverages are invoiced separately. The IRS has issued detailed regulations relating to these deductions.

Note that the cost of the food and beverages cannot be artificially inflated. Obtain the invoices from the appropriate venues.

Year-end tip: The ARPA doubles the usual 50% deduction to 100% for food and beverages provided by restaurants in 2021 and 2022. This tax break is not expected to be extended.

Business Repairs

As more remote workers return to your regular workplace, the business may need to fix up the place. While expenses spent on making repairs are currently deductible, the cost of improvements to business property must be capitalized.

TAX IDEA: When appropriate, complete minor repairs before the end of the year. The deductions can offset taxable income in 2022.

As a rule of thumb, a repair keeps property in efficient operating condition while an improvement prolongs the life of the property, enhances its value or adapts it to a different use. For example, fixing a broken window is a repair, but the addition of a new wing to a business building is treated as an improvement.

Year-end tip: IRS regulations allow a qualified business to make a safe-harbor election to currently deduct costs relating to certain improvements.

Miscellaneous

* Stock up on routine supplies (especially if they are in high demand). If you buy the supplies in 2022, they are deductible in 2022—even if they are not used until 2023.

* Maximize the qualified business interest (QBI) deduction for pass-through entities and self-employed individuals. Note that special rules apply if you are in a "specified service trade or business" (SSTB). See your professional tax advisor for more details.

* If you pay year-end bonuses to employees in 2023, the amounts are generally deductible by the company and taxable to the employees in 2023. But a calendar-year company operating on the accrual basis may be able to deduct bonuses paid as late as March 15, 2023, on its 2022 return.

* Be aware that the IRA requires a corporation to pay a 1% excise tax if it purchases its own stock from shareholders, beginning in 2023. Consider using this technique in 2022 to avoid tax.

* If you buy a heavy-duty SUV or van for business, you may claim a first-year Section 179 deduction of up to $25,000. The "luxury car" limits do not apply to certain heavy-duty vehicles.

* Keep records of collection efforts (e.g., phone calls, emails and dunning letters) to prove debts are worthless. This may allow you to claim a bad debt deduction.

* Hire workers for the busy holiday season from certain “target” groups eligible for the Work Opportunity Tax Credit (WOTC). Generally, the WOTC is 40% of first-year wages of up to $6,000, for a maximum $2,400 credit per qualified worker.

FINANCIAL TAX PLANNING

Capital Gains and Losses

Frequently, investors “time” sales of assets like securities at year-end to produce optimal tax results. It is important to understand the basic tax rules.

For starters, capital gains and losses offset each other. If you show an excess loss for the year, it offsets up to $3,000 of ordinary income before being carried over to the next year. Long-term capital gains from sales of securities owned longer than one year are taxed at a maximum rate of 15% or 20% for certain high-income investors. Conversely, short-term capital gains are taxed at ordinary income rates reaching as high as 37% in 2022.

TAX IDEA: Review your investment portfolio. If it makes sense, you may harvest capital losses to offset gains realized earlier in the year or cherry-pick capital gains that will be partially or wholly absorbed by prior losses.

Be aware of even more favorable tax treatment for certain long-term capital gains. Notably, a 0% rate applies to taxpayers below certain income levels, such as young children. Furthermore, some taxpayers who ultimately pay ordinary income tax at higher rates due to their investments may qualify for the 0% tax rate on a portion of their long-term capital gains.

Year-end tip: The 0%/15%/20% tax rate structure for long-term capital gains also applies to qualified dividends you receive in 2022.

Net Investment Income Tax

Investors should account for the 3.8% tax that applies to the lesser of “net investment income” (NII) or the amount by which MAGI for the year exceeds $200,000 for single filers or $250,000 for joint filers. (These thresholds are not indexed for inflation.) The definition of NII includes interest, dividends, capital gains and income from passive activities, but not Social Security benefits, tax-exempt interest and distributions from qualified retirement plans and IRAs.

TAX IDEA: Make an estimate of your potential liability for 2022. Depending on the results, you may be able to reduce the tax on NII or avoid it altogether.

For example, you may invest in municipal bonds (“munis”). The interest income generated by munis does not count as NII, nor is it included in the MAGI calculation. Similarly, if you turn a passive activity into an active business, the resulting income may be exempt from the NII tax.

Year-end tip: When you add the NII tax to your regular tax, you could be paying an effective 40.8% tax rate at the federal level alone. Factor this into your investment decisions.

Required Minimum Distributions

As a general rule, you must receive "required minimum distributions" (RMDs) from qualified retirement plans and IRAs after reaching age 72 (recently raised from age 70½). The amount of the distribution is based on IRS life expectancy tables and your account balance at the end of last year.

TAX IDEA: Arrange to receive RMDs before December 31. Otherwise, you will have to pay a stiff tax penalty equal to 50% of the required amount (less any amount you have received) in addition to your regular tax liability.

Do not procrastinate if you have not arranged RMDs for 2022 yet. It may take some time for your financial institution to accommodate these transactions.

Conversely, if you are still working and do not own 5% or more of the business employing you, you can postpone RMDs from an employer's qualified plan until your retirement. This "still working exception" does not apply to RMDs from IRAs or qualified plans of employers for whom you no longer work.

Year-end tip: RMDs are not treated as NII for purposes of the 3.8% tax. Nevertheless, an RMD may still increase your MAGI used in the NII tax calculation.

Installment Sales

Normally, when you sell real estate at a gain, you must pay tax on the full amount of the capital gain in the year of the sale.

TAX IDEA: Arrange to sell real estate on the installment basis. If you receive installment payments over two or more tax years, the tax on a gain is paid over the years in which payments are actually received. This tax deferral treatment is automatic for most installment sales other than sales by "dealers" like real estate developers.

The taxable portion of each payment is based on the "gross profit ratio." Gross profit ratio is determined by dividing the gross profit from the real estate sale by the price.

Not only does the installment sale technique defer some of the tax due on a real estate deal, it will often reduce your overall tax liability if you are a high-income taxpayer. Reason: By spreading out the taxable gain over several years, you may pay tax on a greater portion of the gain at the 15% capital gain rate as opposed to the 20% rate.

Year-end tip: If it suits your purposes (e.g., you have a low tax year), you may "elect out" of installment sale treatment when you file your return.

Estate and Gift Taxes

During the last decade, the unified estate and gift tax exclusion has gradually increased, while the top estate rate has not budged. For example, the exclusion for 2022 is $12.06 million, the highest it has ever been. (It is scheduled to revert to $5 million, plus inflation indexing, in 2026.)

TAX IDEA: Incorporate this into your estate plan. For instance, your plan may involve various techniques, including trusts, that maximize the benefits of the estate and gift tax exemption. The following table shows the exemption and top estate tax rate for the last ten years.

Tax year	Estate tax exemption	Top estate tax rate
2013	$5.25 million	40%
2014	$5.34 million	40%
2015	$5.43 million	40%
2016	$5.45 million	40%
2017	$5.49 million	40%
2018	$11.18 million	40%
2019	$11.40 million	40%
2020	$11.58 million	40%
2021	$11.70 million	40%
2022	$12.06 million	40%

In addition, you can give gifts to family members that qualify for the annual gift tax exclusion. For 2022, there is no gift tax liability on gifts of up to $16,000 per recipient (up from $15,000 in 2021). The limit is $32,000 for a joint gift by a married couple.

Year-end tip: You may "double up" by giving gifts in both December and January that qualify for the annual gift tax exclusion for 2022 and 2023, respectively. The IRS recently announced that the limit for 2023 is $17,000 per recipient.

Miscellaneous

* Watch out for the "wash sale" rule that disallows losses from a securities sale if you reacquire substantially identical securities within 30 days. Wait at least 31 days to buy them back.

* Contribute up to $20,500 to a 401(k) in 2022 ($27,000 if you are age 50 or older). If you clear the 2022 Social Security wage base of $147,000 and promptly allocate the payroll tax savings to a 401(k), you can increase your deferral without any further reduction in your take-home pay.

* Weigh the benefits of a Roth IRA conversion, especially if this will be a low-tax year. Although the conversion is subject to current tax, you generally can receive tax-free distributions in retirement, unlike taxable distributions from a traditional IRA.

* Skip this year's RMD if you recently inherited an IRA and are required to empty out the account within ten years. Under new IRS guidance, there is no penalty if you fail to take RMDs for 2021 or 2022. The IRS will issue final regulations soon.

* If you rent out your vacation home, keep your personal use within the tax law boundaries. No loss is allowed if personal use exceeds the greater of 14 days or 10% of the rental period.

* From a tax perspective, it is often beneficial to sell mutual fund shares before the fund declares dividends (the ex-dividend date) and buy shares after the date the fund declares dividends.

* Consider a qualified charitable distribution (QCD). If you are age 70½ or older, you can transfer up to $100,000 of IRA funds directly to a charity. Although the contribution is not deductible, the QCD is exempt from tax. This may improve your overall tax picture.

CONCLUSION

This year-end tax-planning letter is based on the prevailing federal tax laws, rules and regulations. Of course, it is subject to change, especially if additional tax legislation is enacted by Congress before the end of the year.

Finally, remember that this letter is intended to serve only as a general guideline. Your personal circumstances will likely require careful examination. We would be glad to schedule a meeting with you to assist with all your tax-planning needs.

Very truly yours,

Frankel Zacharia, LLC

Frankel Zacharia, LLC