Digital Currency:

At any time during 2022, did you receive, sell, exchange, or otherwise dispose of any financial interest in virtual currency? (Y/N) If yes, you must provide all details relating to the 2022 activity.

Please contact our office should you have any questions relating to the above matters or any other 2022 tax questions.

- As the end of the year is fast approaching, you should consider any last-minute strategies that might help reduce your 2022 tax bill. While there was no significant new legislation in 2022 affecting individual taxes, situations do change from year to year, thus requiring a fresh look at how to approach year-end tax planning. The following are strategies that may benefit you and that we should discuss before December 31.

Bunching Deductions into 2022

As you may know, TCJA significantly increased the standard deduction for all taxpayers. This means, that many individuals who previously received a tax benefit by itemizing deductions no longer is because taking the standard deduction is more advantageous. For 2022, the standard deduction is $12,950 for single taxpayers, $25,900 for married taxpayers filing a joint return. (Additonal deductions, Single, 65 or blind, $1,750 or Married, 65 or blind $1,400.

In addition, there is a $10,000 limitation ($5,000 in the case of married taxpayers filing separately) on the combined amount of state income taxes and property taxes that may be deducted when itemizing. Unfortunately, this $10,000 limitation applies to single as well as married taxpayers and is not indexed for inflation.

If the total of your itemized deductions in 2022 will be close to your standard deduction amount, alternating between bunching itemized deductions into 2022 and taking the standard deduction in 2022 (or vice versa) could provide a net-tax benefit over the two-year period. For example, if you give a certain amount to charities each year, and if it's financially feasible, you might consider doubling up this year on your contributions rather than spreading the contributions over a two-year period. If these amounts, along with your mortgage interest and medical expenses exceed your standard deduction, then you should double up on the expenses this year and take the standard deduction next year.

Medical Expenses and Health Savings Accounts

For 2022, your medical expenses are only deductible as an itemized deduction to the extent they exceed 7 ½ percent of your adjusted gross income. Depending on what your taxable income is expected to be in 2022 and 2023, and whether itemizing deductions would be advantageous for you in either year, you may want to accelerate any optional medical expenses into 2022 or defer them until 2023. The right approach depends on your income for each year, expected medical expenses, as well as your other itemized deductions.

Health saving accounts (HSAs) present an attractive alternative. If you are eligible to set up such an account, you can deduct the amount you contribute to the account in computing adjusted gross income. Thus, the contributions are deductible whether you itemize deductions or not. Distributions from an HSA are tax free to the extent they are used to pay for qualified medical expenses (i.e., medical, dental, and vision expenses). For 2022, the annual contribution limits are $3,650 for an individual with self-only coverage and $7,300 for an individual with family coverage.

Mortgage Interest Deduction

If you sold your principal residence during the year and acquired a new principal residence, the deduction for any interest on your acquisition indebtedness (i.e., mortgage) could be limited. The TCJA limits the interest deduction on mortgages of more than $750,000 obtained after December 14, 2017. The deduction is limited to the portion of the interest allocable to $750,000 ($375,000 in the case of married taxpayers filing separately). For mortgages acquired before December 15, 2017, the limitation is the same as it was under prior law: $1,000,000 ($500,000 in the case of married taxpayers filing separately). However, as discussed below, if you operate a business from your home, an allocable portion of your mortgage interest is not subject to these limitations.

You can potentially deduct interest paid on home equity indebtedness, but only if you used the debt to buy, build, or substantially improve your home. Thus, for example, interest on a home equity loan used to build an addition to your existing home is typically deductible, while interest on the same loan used to pay personal living expenses, such as credit card debts, is not.

Charitable Contribution Deductions

As a result of the increase in the standard deduction, some taxpayers are no longer getting a benefit from itemizing their deductions, such as charitable contributions, as they once were. However, as noted above, you can still help charities and get a tax benefit if you contribute enough to get over the standard deduction amount or bunch itemized deductions that would otherwise be spread over multiple years into one year. ***Additionally, non-itemizing taxpayers can deduct up to $300 for cash contributions.***

You can reap a larger tax benefit by donating appreciated assets, such as stock, to a charity. Generally, the higher the appreciated value of an asset, the bigger the potential value of the tax benefit. Donating appreciated assets not only entitles you to a charitable contribution deduction but you also avoid the capital gains tax that would otherwise be due if you sold the stock. For example, if you own stock with a fair market value of $1,000 that was purchased for $250 and your capital gains tax rate is 15 percent, the capital gains tax would be $113 ($750 gain x 15%). If you donate that stock instead of selling it, and are in the 24 percent tax bracket, you get an ordinary income deduction worth $240 ($1,000 FMV x 24%). You also save $150 in capital gains tax that you would otherwise pay if you sold the stock. Thus, the after-tax cost of the gift of appreciated stock is $647 ($1,000 - $240 - $113) compared to the after tax cost of a donation of $1,000 cash which would be $760 ($1,000 - $240). However, it's important to also keep in mind that tax deductions for appreciated property are limited to 50 percent of your adjusted gross income.

Retirement Planning

By investing in a qualified retirement plan you'll not only receive a current tax deduction, thereby reducing current year income tax, but you can sock away money for your retirement years. If your employer has a 401(k) plan and you are under age 50, you can defer up to $20,500 of income into that plan. Catch-up contributions of $6,500 are allowed if you are 50 or over.

If you have a SIMPLE 401(k), the maximum pre-tax contribution for 2022 is $14,000. That amount increases to $17,000 if you are 50 or older.

If certain requirements are met, contributions to an individual retirement account (IRA) may be deductible. If you are under 50, the maximum contribution amount for 2022 is $6,000. If you are 50 or older but less than 72, the maximum contribution amount is $7,000. Contributions exceeding the maximum amount are subject to a 6 percent excise tax. Even if you are not eligible to deduct contributions, contributing after-tax money to an IRA may be advantageous because it will allow you to later convert that traditional IRA to a Roth IRA. Qualified withdrawals from a Roth IRA, including earnings, are free of tax, while earnings on a traditional IRA are taxable when withdrawn.

If you already have a traditional IRA, we should evaluate whether it is appropriate to convert it to a Roth IRA this year. You'll have to pay tax on the amount converted as ordinary income, but subsequent earnings will be free of tax and the decrease in tax rates that are effective this year makes such a conversion less costly than it would have been in previous years. Of course, this option only makes sense if the tax rates when the money is withdrawn from the Roth IRA are anticipated to be higher than the tax rates when the traditional IRA is converted. And if you have a traditional 401(k), 403(b), or 457 plan that includes after-tax contributions, you can generally rollover these after-tax amounts to a Roth IRA with no tax consequences. A rollover of a SIMPLE 401(k) into a Roth IRA may also be available. As with all tax rules, there are qualifications that apply to these rollovers that we should discuss before any actions are taken.

Additional Medicare Tax

An additional Medicare tax of 0.9 percent is imposed on wages, compensation, and self-employment income in excess of a threshold amount. The threshold amounts are $250,000 (joint return or surviving spouse), $125,000 (married individual filing a separate return), and $200,000 (all others). However, the threshold amount is reduced (but not below zero) by the amount of the taxpayer's wages. Thus, a single individual who has $145,000 in self-employment income and $130,000 of wages is subject to the .9 percent additional tax on $75,000 of self-employment income ($145,000 - $70,000 (the $200,000 threshold - $130,000 in wages)). No tax deduction is allowed for the additional Medicare tax.

For married couples, employers do not take a spouse's self-employment income or wages into account when calculating Medicare tax withholding for an employee. If you and your spouse will exceed the $250,000 threshold in 2022 and have not made enough tax payments to cover the additional .9 percent tax, you can file Form W-4 with the IRS before year end to have an additional amount deducted from your paycheck to cover the additional .9 percent tax. Otherwise, underpayment of tax penalties may apply.

Foreign Bank Account Reporting

The IRS has become increasingly aggressive at tracking down individuals who have not reported foreign bank accounts. If you have an interest in a foreign bank account, it must be disclosed; failure to do so carries stiff penalties. You must file a Report of Foreign Bank and Financial Accounts (FBAR) if: (1) you are a U.S. resident or a person doing business in the United States; (2) you had one or more financial accounts that exceeded $10,000 during the calendar year; (3) the financial account was in a foreign country; and (4) you had a financial interest in the account or signatory or other authority over the foreign financial account. If you are unclear about the requirements or think they could possibly apply to you, please let us know at your earliest convenience.

Other Considerations

Flexible Spending Accounts: Generally, you will lose any amounts remaining in a health flexible spending account at the end of the year unless your employer allows you to use the account until March 15, 2022, in which case you'll have until then. You should check with your employer to see if the employer gives employees the optional grace period to March 15.

Life Events. Life events can significantly impact your taxes. For example, if you are using head of household or surviving spouse filing status for 2022, but will change to a filing tax status of single for 2022, your tax rate will go up. Thus, accelerating income into 2022 and pushing deductions into 2022 may also yield tax savings.

Casualty and Theft Losses. If you incurred a casualty loss in a presidentially declared disaster area in 2022, it may be deductible. Any other casualty loss, along with all theft losses, are not deductible.