September 2022

Taximpact

YOUR GUIDE TO *Proactive* YEAR-END TAX PLANNING

One of our main goals as holistic financial advisors is to help our clients recognize tax reduction opportunities within their investment portfolios and overall financial planning strategies. Staying current on the ever-changing tax environment is a key method to helping our clients benefit from potential tax reduction strategies.

Other than some IRS inflation adjustments, 2022 has brought limited changes in tax laws for individuals. Many of the provisions that were passed in bills – such as ***The Inflation Reduction Act of 2022*** – affected corporations. While President Biden has offered some personal income tax and estate planning tax changes in his proposed 2022 budget and tax plans, many experts feel it's very unlikely that any changes, if approved, will take affect this calendar year. **This report focuses on information that could be helpful for individuals in conjunction with tax planning for calendar year 2022. It also has a section that shares some key details from President Biden's suggested *American Families Plan* and some noteworthy proposals included in the budget and green book from Biden's recent 2022 Budget Plan.**

Remember, the 2017 **Tax Cuts and Jobs Act (TCJA)** brought many changes to the tax code. The **TCJA** included provisions for individuals that took effect in 2018 but are set to expire after 2025. One big uncertainty for all taxpayers is what will happen to the tax code after 2025.

As financial advisors, we try to be proactive when it makes sense. The objective of this report is to share strategies that could be effective if considered and implemented before year-end. Please note that this report is not a substitute for using a tax professional. In addition, many states do not follow the same rules and computations as the federal income tax rules. Make sure you check with your tax preparer to see what tax rates and rules apply for your state.

Hughes Financial Services, LLC, is an independent Registered Investment Advisor (RIA) that works closely with individuals and families, helping them to accomplish their unique financial goals and objectives through the allocation of their assets.

We are a fee-only firm that seeks to adhere to the highest fiduciary standards and provide clients with advice that is truly unbiased and has only our clients' best interests in mind.

We offer our clients a wealth of comprehensive financial planning expertise in:

- retirement planning
- estate planning
- investment management
- risk management
- tax planning
- education planning

Our advisors hold a variety of professional designations and certifications and are well-versed in a number of financial disciplines. Our combined education and experience allow us to proudly offer you independent financial advice you can trust.

HUGHES FINANCIAL SERVICES, LLC

Year-end tax planning

The best time to start is now

TAX PLANNING SHOULD *ALWAYS* BE A CRUCIAL COMPONENT OF YOUR FINANCIAL PLAN

Benjamin Franklin once said, "In this world, nothing can be said to be certain, except death and taxes." However, given the huge tax code overhaul in 2017 and potential tax law changes being considered now, wouldn't you agree that "ever-changing tax laws" should be added to Mr. Franklin's quote?

What should always be certain for taxpayers is making sure to start their final year-end tax planning now! Choosing the appropriate tactics will depend on issues that are specific to your financial situation. As you read through this report, mark those strategies that may apply to your situation so you can discuss them with your tax professional and financial advisor.

EVALUATE THE USE OF ITEMIZED DEDUCTIONS VS STANDARD DEDUCTION

For 2022, the standard deduction amounts increase to $12,950 for individuals and married couples filing separately, $19,400 for heads of household, and $25,900 for married couples filing jointly and surviving spouses.

As a reminder, the TCJA roughly doubled the standard deduction with the intent of decreasing tax payments for those who typically claimed this deduction. Although personal exemption deductions are no longer available, the larger standard deduction, combined with lower tax rates and an increased child tax credit, may result in a lower tax bill. Before opting to use itemized deductions, you should run the numbers to determine the impact on your situation.

The TCJA still eliminates or limits many of the previous laws concerning itemized deductions. One example is the state and local tax deduction (SALT), which is still currently capped at $10,000 per year, or $5,000 for a married taxpayer filing separately.

CONSIDER BUNCHING CHARITABLE CONTRIBUTIONS OR USING A DONOR-ADVISED FUND (DAF)

For taxpayers who are charitably inclined, it makes sense to put together a plan. One method is "bunching." Bunching is the consolidation of donations and other deductions into targeted years so that in those years, the deduction amount will exceed the standard deduction amount.

Another strategy to consider is a **Donor-Advised Fund (DAF)**. A DAF is a philanthropic vehicle established at a public charity. It allows donors to make a charitable contribution of cash, stock, or other assets, receive an immediate tax benefit and then recommend grants from the fund over time.

Taxpayers can take advantage of the charitable deduction when they're at a higher marginal tax rate while the actual payouts from the fund can be deferred until later. It can be a win-win situation for the taxpayer and the charity. **If you are charitably inclined and need some guidance, call us for our assistance.**

REVIEW HOME EQUITY DEBT INTEREST

For mortgages taken out after October 13, 1987, and before December 16, 2017, mortgage interest is fully deductible up to the first $1,000,000 of mortgage debt. For homes purchased after December 15, 2017, the threshold has been lowered to the first $750,000 (or $375,000 married filing separately). All interest paid on any mortgage taken out before October 13, 1987, is called "grandfathered debt" and is fully deductible regardless of your mortgage amount. Under the TCJA, this change applies to all tax years between 2018 and 2025. Many mortgage holders refinanced for lower rates or to cash out in the last few years, so remember, to the extent debt increases the interest might not be deductible.

Interest on home equity lines of credit (HELOCs) and cash-out refinancings may be deductible as well if the funds were used to improve the home that secures the loan (or if the proceeds were invested). Remember to share with your tax preparer how the proceeds of your home equity loan were used. If you used cash to pay off credit cards or other personal debts, the interest isn't deductible (but this may change when the TCJA sunsets at the end of 2025).

INCOME TAX RATES FOR 2022

For 2022, there are still seven tax rates ranging between 10% and 37%. Under current tax law, this seven-rate structure will be phased out on January 1, 2026.

FEDERAL TAX RATES	SINGLE		HEAD OF HOUSEHOLD		MARRIED FILING SEPARATELY		MARRIED FILING JOINTLY/ QUALIFYING WIDOW(ER)	
Ordinary Income	Taxable Income Over	to	Taxable Income Over	to	Taxable Income Over	to	Taxable Income Over	to
10%	$0	$10,275	$0	$14,650	$0	$10,275	$0	$20,550
12%	10,276	41,175	14,651	55,900	10,276	41,775	20,551	83,550
22%	41,176	89,075	55,901	89,050	41,776	89,075	83,551	178,150
24%	89,076	170,050	89,051	170,050	89,076	170,050	178,151	340,100
32%	170,051	215,950	170,051	215,950	170,051	215,950	340,101	431,900
35%	215,951	539,900	215,951	539,900	215,951	323,925	431,901	647,850
37%	Over $539,901		Over $539,901		Over $323,926		Over $647,851	

REVISIT THE USE OF QUALIFIED TUITION PLANS

Qualified tuition plans, aka 529 plans, are a great way to mitigate your tax bill while planning for the challenge of paying tuition for children or grandchildren. Originally, earnings in a 529 plan could be withdrawn tax-free only when used for qualified higher education at colleges, universities, vocational schools, or other post-secondary schools.

Now, 529 plans can also be used to pay for tuition at an elementary or secondary public, private or religious school, up to $10,000 per year. Unlike IRAs, there are no annual contribution limits for 529 plans. Instead, there are maximum aggregate limits, which vary by plan. Under federal law, 529 plan balances cannot exceed the expected cost of the beneficiary's qualified higher education expenses with limits varying by state.

Some states offer a state tax credit or deduction up to a certain amount for 529 plan contributions. For federal tax purposes, 529 plan contributions are considered completed gifts and, in 2022, up to $16,000 per donor, per beneficiary, qualifies for the annual gift tax exclusion. Excess contributions above $16,000 must be reported on IRS Form 709 and will count against the taxpayer's lifetime estate and gift tax exemption amount ($12.06 million in 2022).

There is also an option to make a larger tax-free 529 plan contribution if the contribution is treated as if it were spread evenly over a 5-year period. For example, an $80,000 lump sum contribution to a 529 plan can be applied as though it were $16,000 per year as long as no other monetary gifts are made to the same beneficiary over the next five years. Grandparents sometimes use this 5-year gift-tax averaging as an estate planning strategy. **If you want to explore setting up a 529 plan for your child or grandchild, call us and we would be happy to assist you.**

MAXIMIZE YOUR QUALIFIED BUSINESS INCOME (QBI) DEDUCTION (if applicable)

One of the most talked about changes from the TCJA enacted in 2017 is the Qualified Business Income (QBI) deduction under Section 199A. Current proposals want to change this deduction but for 2022, taxpayers who own interests in a sole proprietorship, partnership, LLC, or S corporation may be able to deduct up to 20% of their QBI. This deduction is subject to various rules and limitations so it would be wise to discuss this with your tax preparer.

There are planning strategies for business owners to consider. For example, business owners can adjust their business's W-2 wages to maximize the deduction. Also, it may be beneficial to convert independent contractors to employees where possible; before doing so, make sure the benefit of the deduction outweighs the increased payroll tax burden and cost of providing employee benefits. Other planning strategies can include investing in short-lived depreciable assets, restructuring the business, and leasing or selling property between businesses. **The QBI deduction is complicated and would take an entire report to discuss, so we recommend that if you are a business owner, talk with a qualified tax professional about how Section 199A could potentially work for you.**

2022 Retirement Savings Options

In 2022, if you have earned income or are still working, consider contributing to your retirement plan.

Now is an ideal time to maximize the benefits of retirement plans for 2022 and start thinking about what your strategy should be in 2023. For many investors, retirement contributions represent one of the smarter tax moves to make.

Here are some strategies worth considering:

401(K) Contribution Limits Increased

The elective deferral (contribution) limit for employees under the age of 50 who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is $20,500. The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan remains the same at an additional $6,500 ($27,000 total). **As a reminder, these contributions must be made in 2022.**

IRA Contribution Limits Unchanged

The limit on annual contributions to an Individual Retirement Arrangement (IRA) remains at $6,000 for 2022. The additional catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains $1,000 (for a total of $7,000). **IRA contributions for 2022 can be made all the way up to the April 17, 2023, filling deadline.**

Higher IRA Income Limits

The deduction for taxpayers making contributions to a traditional IRA is phased out for singles and heads of household who are covered by a workplace retirement plan and have modified adjusted gross incomes (MAGI) of $68,000 and $78,000 for 2022. For married couples filing jointly, in which the spouse who makes the IRA contribution is covered by a workplace retirement plan, the income phase-out range is $109,000 to $129,000. For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out in 2022 as the couple's income reaches $204,000 and completely at $214,000. For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range remains at $0 to $10,000 for 2022. **Please keep in mind, if your earned income is less than your eligible contribution amount, your maximum contribution amount equals your earned income.**

Increased Roth IRA Income Cutoffs

The MAGI phase-out range for taxpayers making contributions to a Roth IRA is $204,000 - $214,000 for married couples filing jointly in 2022. For singles and heads of household, the income phase-out range is $129,000 - $144,000. For a married individual filing a separate return, the phase-out range remains at $0 to $10,000. **Please keep in mind, if your earned income is less than your eligible contribution amount, your maximum contribution amount equals your earned income.**

Larger Saver's Credit Threshold

The MAGI limit for the Saver's Credit (also known as the Retirement Savings Contribution Credit) for low- and moderate-income workers in 2022 is $68,000 for married couples filing jointly, $51,000 for heads of household, and $34,000 for all other filers.

Be Careful of The IRA One Rollover Rule

Investors are limited to only one rollover from <u>all</u> their IRAs to another in any 12-month period. A second IRA-to-IRA rollover in a single year could result in income taxes becoming due on the rollover, a 10% early withdrawal penalty, and a 6% per year excess contributions tax if that rollover remains in the IRA. While individuals can only make one IRA rollover during a one-year period, there is no limit on trustee-to-trustee transfers. Multiple trustee-to-trustee transfers between IRAs and conversions from traditional IRAs to Roth IRAs are allowed in the same year. **If you are rolling over an IRA or have questions about this, please call us.**

A TAXING STORY: CAPITAL GAINS & LOSSES

Investments can provide plenty of tax-saving opportunities! Start by reviewing the various sales you have realized this year on stocks, bonds, and other investments. Then review what is left and determine whether these investments have an unrealized gain or loss (unrealized means you still own the investment, versus realized, which means you have already sold the investment).

Know Your Cost Basis

To determine if you have unrealized gains or losses, you must know the investment's tax basis (the cost of the investment when you bought it). However, this gets trickier with investments that allow you to reinvest your dividends and/or capital gain distributions. We will be glad to help you calculate your cost basis.

Consider Loss Harvesting

If your capital gains are larger than your losses, you may want to do some "loss harvesting" (selling investments that will generate a loss). You can use an unlimited amount of capital losses to offset capital gains. However, you are limited to only $3,000 married, filing jointly ($1,500 married, filing separately) of net capital losses that can offset other income, such as wages, interest, and dividends. **Bonus:** any remaining unused capital losses can be carried forward into future years indefinitely.

Always Double-Check Brokerage Firm Reports

The cost-basis for stock sold in 2022 will be reported by the brokerage firm on IRS Form 1099-B in early 2023. Discrepancies sometimes happen so we suggest you double-check these numbers to make sure that the cost-basis is calculated correctly and does not result in a higher amount of tax than you need to pay.

Know The "Wash Sale" Rule

If you sell an investment at a loss and buy it right back, the IRS disallows the deduction. The "wash sale" rule says you must wait at least 30 days before buying back the same security to claim the original loss as a deduction. The deduction is also disallowed if you bought the same security within 30 days before the sale. However, you can buy a similar security, perhaps a different stock in the same sector, that will allow you to maintain your general market position while enjoying a tax break.

CHANGES IN LONG-TERM CAPITAL GAINS TAX RATES

Tax rates on long-term capital gains and qualified dividends changed for 2022. You may qualify for a 0% capital gains tax rate for some, or all your long-term capital gains realized in 2022. This year, the 0% rate applies for individual taxpayers with taxable income up to $41,675 on single returns, $55,800 for head-of-household filers and $83,350 for joint returns. If this is the case, then the strategy is to figure out how much long-term capital gains you might be able to recognize to take advantage of this tax break.

The 3.8% surtax on net investment income stays the same for 2022. It starts for single people with modified AGI over $200,000 and for joint filers with modified AGI over $250,000.

NOTE: The 0%, 15% and 20% long-term capital gains tax rates only apply to "capital assets" (such as marketable securities) held longer than one year. Anything held one year or less is considered a "short-term capital gain" and are taxed at ordinary income tax rates.

2022 Long-Term Capital Gains Tax Brackets

Tax Bracket/Rate	Single	Married Filing Jointly	Head of Household
0%	$0 - $41,675	$0 - $83,350	$0 - $55,800
15%	$41,676 - $459,750	$83,351 - $517,200	$55,801 - $488,500
20%	$459,751+	$517,201+	$488,501+

2022 Tax Features

Deductible Medical Expenses

The 2022 threshold for deducting medical expenses on Schedule A is 7.5% of your 2022 AGI. IRS.gov provides a list of qualifying medical expenses.

SALT

State and local income, sales, and real and personal property taxes are still limited to $10,000.

ALIMONY DEDUCTIONS

Under prior tax laws, alimony and separate maintenance payments could be deducted by the payor and included as income by the payee.

Under the TCJA, for divorce and separation instruments executed or modified after December 31, 2018, alimony and separate maintenance payments are no longer deductible by the payor-spouse, nor included as income for the payee-spouse.

EDUCATION BENEFITS

The student loan interest deduction, education credits, exclusion for savings bond interest, tuition waivers for graduate students, and the educational assistance fringe benefit are all still available in 2022. Funds from 529 plans can be used to pay for fees, books, supplies and equipment for certain apprenticeship programs as well as up to $10,000 in total (not annually) can be withdrawn from 529 plans to pay off student loans.

The 2022 lifetime learning credit allows you to claim 20% of your out-of-pocket costs for tuition, fees and books, for a total of $2,000 as a tax credit. It phases out for couples from $118,00 to $138,00 and from $59,000 to $69,000 for singles.

Estate, Gift and Generation-Skipping Taxes

Exemption amounts for gift, estate, and generation-skipping taxes are another issue that the tax proposals are trying to change. For 2022, the limits are $12.06 million ($24.12 million for married couples). Any amount over that is subject to 40% Federal taxes. Additionally, the income tax basis step up/down to fair market value at death continues. This high amount provides high net worth individuals a significant planning window to make gifts and set up irrevocable trusts.

As a reminder, the estate tax exclusion is due to revert to pre- 2018 levels (adjusted for inflation, which we project will be $6-7 million) in 2026.

In 2019, the Treasury Department and the IRS issued final regulations under IR-2019-189 confirming that individuals who take advantage of the increased gift tax exclusion or portability amounts in effect from 2018 to 2025 will not be adversely impacted when the TCJA provisions expire on January 1, 2026. Claiming the portable exemption will remain an important discussion topic for decedents with larger estates. For those who have larger estates, please call us to discuss your situation.

Make Use of the Annual Gift Tax Exclusion

In 2022, you may gift up to $16,000 tax-free per beneficiary. These annual exclusion gifts do not reduce your $12.06 million lifetime gift tax exemption. The annual exclusion gift doubles to $32,000 per beneficiary for gifts made by married couples of jointly held property or when one spouse consents to “gift-splitting” for gifts made by the other spouse.

Make Gifts to Trusts

If direct and immediate, these gifts often qualify as annual exclusion gifts ($16,000 in 2022) and upon meet certain requirements, removes the property from your estate. The annual exclusion gift can be contributed for each beneficiary of a trust. We are happy to review these details with your estate planning attorney.

Help With Medical or Education Expenses

There are opportunities to give unlimited tax-free gifts when you pay the medical or education provider directly. Qualified expenses can be found in IRS Publications 950 and instructions for IRS Form 709 at www.irs.gov.

ROTH IRA CONVERSIONS

In 2022, some IRA owners may want to consider converting part or all their traditional IRAs to a Roth IRA. This is never a simple or easy decision. Roth IRA conversions can be helpful but can also trigger immediate tax consequences and bring on additional rules and potential penalties. Under current laws, you can no longer unwind a Roth conversion by re-characterizing it. It’s wise to run the numbers with a qualified professional and calculate the most appropriate strategy for your situation. Reach out to us if you would like to review your Roth IRA conversion options.

CHARITABLE GIVING

This is a great time of the year to clean out and donate items to charity. Remember that you can only write off these donations to a charitable organization if you itemize your deductions.

Send cash donations by December 31, 2022 and be sure to hold on to your cancelled check or credit card receipt as proof of your donation. If you contribute $250 or more, you will need a written acknowledgement from the charity.

If you plan to make a significant gift to charity, consider gifting appreciated stocks or other investments you've owned for more than one year to boost the savings on your tax returns. Your contribution deduction is the fair market value of the securities on the date of the gift, not the amount you paid for the asset, and so you avoid having to pay taxes on the profit!

Do not donate investments that have lost value. It is best to sell the asset with the loss first and donate the proceeds so you can take both the charitable contribution deduction and the capital loss. Also, if you give appreciated property to charity, the unrealized gain must be a long-term capital gain for the entire fair market value to be deductible. (The amount of the deduction must be reduced by any unrealized ordinary income, depreciation recapture and/or short-term gain.)

The law allowing taxpayers age 70½ and older to make a Qualified Charitable Distribution (QCD) in the form of a direct transfer of up to $100,000 directly from their IRA to a charity (including all or part of the Required Minimum Distribution) was made permanent in 2015. If you meet the qualifications to use this strategy, the funds must come out of your IRA by December 31, 2022.

Today's Tax Law Proposals

On March 28, 2022, the Biden Administration released the Fiscal Year 2023 Budget, and the "General Explanations of the Administration's Fiscal Year 2023 Revenue Proposals," which is commonly referred to as the "Green Book." The Green Book summarizes the Administration's tax proposals contained in the Budget. The Green Book is not a proposed legislation and each of the proposals will have to be introduced and passed by Congress. **Here are some of the significant proposed changes to current law in the Green Book.**

BUSINESS TAXATION

Increase the corporate income tax rate from 21% to 28%

INDIVIDUAL TAXATION

- Impose a 20% minimum tax on individuals who have more than $100 million in assets. A taxpayer subject to the minimum tax would make two calculations: their "normal" tax liability under our current realization system, and the "minimum" tax under the proposal. Tax would be paid on the greater of the two.
- Treat death as a realization event

TAXATION OF INVESTMENTS IN REAL PROPERTY

- Restrict deferral of gain for like-kind exchanges under section 1031
- Treat 100% of depreciation recapture on the sale of section 1250 property as ordinary income

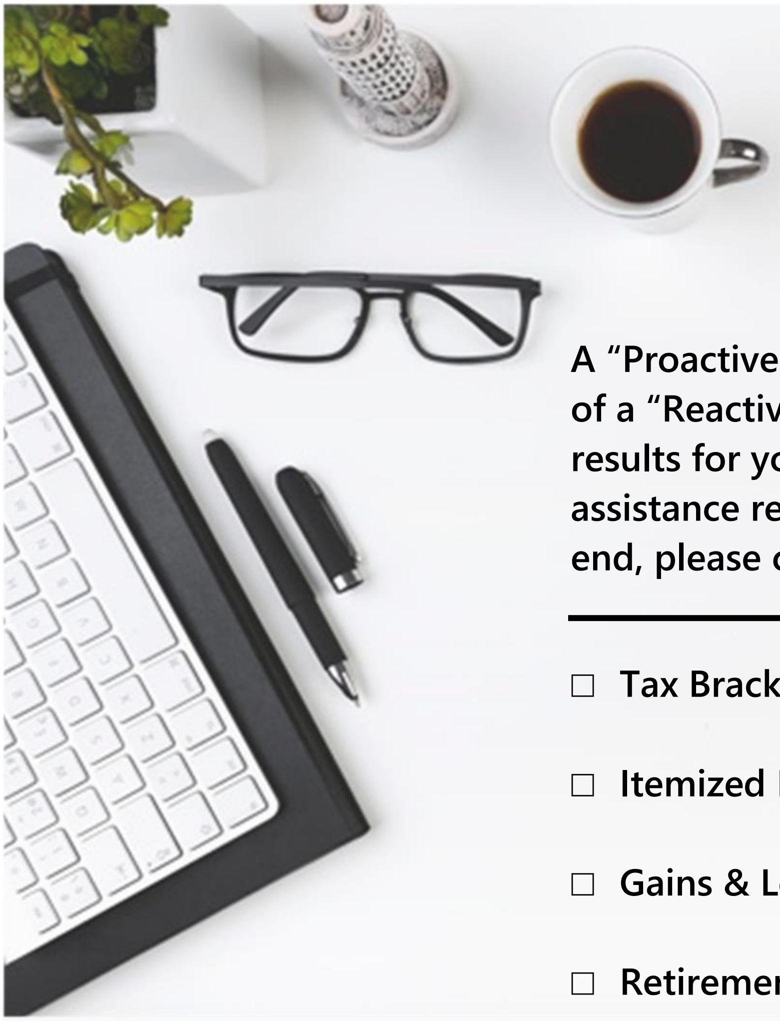
CRYPTOCURRENCY TAXATION

- Apply securities loan rules to digital assets
- Apply the mark-to-market rules to digital asset dealers and traders
- Require information reporting for digital asset transactions

Passing legislation takes time and even if any legislation is passed, it's very unlikely that all proposed changes will take effect for 2022. Retroactive tax increases are very rare and unusual. However, it's always wise to be informed of potential changes. As mentioned earlier in this report, many tax laws are set to sunset on December 31, 2025, and change for 2026, even if no legislation from the Green Book is passed.

Our goal is to keep clients updated when tax laws change so that they can proactively plan. If you would like to discuss any of these potential tax law changes with us, please feel free to contact us and we'd be happy to assess your unique financial situation.

★★★★★ **FIVE STAR TIP: YOU CAN FIND ESTIMATED VALUES FOR YOUR DONATED ITEMS AT: https://goo.gl/WcQEfL**



2022 YEAR-END TAX PLANNING CHECKLIST

A "Proactive" approach to your tax planning instead of a "Reactive" approach could produce better results for your financial situation. If you need assistance reviewing any of these items prior to year-end, please call us and we'd be happy to help you!

- ☐ **Tax Bracket Management**
- ☐ **Itemized Deduction Timing**
- ☐ **Gains & Loss Harvesting**
- ☐ **Retirement Planning**
- ☐ **Education Planning**
- ☐ **Charitable Planning**
- ☐ **Gifting Strategies**
- ☐ **Estate Tax Planning**
- ☐ **Planning for Major Financial and/or Life Events Next Year/Future**
- ☐ **Planning for Any Other Personal Situations/Concerns**

Note: The views stated in this letter are not necessarily the opinion of Hughes Financial Services, LLC, and should not be construed, directly or indirectly, as an offer to buy or sell any securities mentioned herein. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed. Please note that statements made in this newsletter may be subject to change depending on any revisions to the tax code or any additional changes in government policy. Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. Past performance is no guarantee of future results. Please note that individual situations can vary. This information is not intended to be a substitute for specific individualized tax, legal or investment planning advice. We suggest that you discuss your specific tax issues with a qualified tax advisor. **Sources:** IRS.gov; The Academy of Preferred Financial Advisors, Inc. Reviewed by Keebler & Associates.

HUGHES FINANCIAL SERVICES, LLC

2201 Cooperative Way, Suite 150 | Herndon, VA 20171
(703) 669-3660 | F (703) 880-4905 | www.h4fs.com

Hughes Financial Services, LLC, is an independent Registered Investment Advisor