HUGHES FINANCIAL SERVICES, LLC

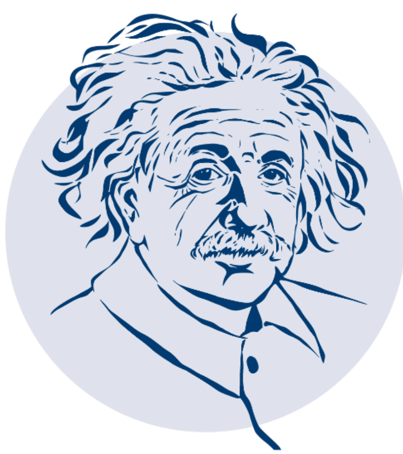
Taximpact

FEBRUARY 2023

Tax Planning & Tax Risk Management

FILING FOR 2022, PLANNING FOR 2023

Income tax is a large revenue source for the United States government. Although our tax rates have changed many times since the 1860's, the United States uses a "progressive" tax code. A progressive tax code means that people who make more money are taxed at a higher rate than those who make less money. Our progressive tax system works by placing earners through different tax brackets according to how much money they earn. The dollar amounts define your tax brackets with differing tables depending on your filing status (single, married, etc.). These items are important when determining your marginal tax rate.



"The hardest thing in the world to understand is the income tax."

-Albert Einstein

UNDERSTANDING YOUR MARGINAL TAX RATE

Determining your tax bracket is not as simple as just adding up your total income and checking a tax table. You need to calculate your taxable income (which can be sometimes referred to as your "adjusted gross income") and adjust your income for any allowable deductions, adjustments, and exemptions to come up with your final taxable amount.

Once you determine your final taxable income amount, it's critical to know that not all your income will be taxed at the same rate. For example, if you are married filing jointly with a final taxable income of $95,000, your first $20,550 is taxed at 10% with the remainder at a "marginal tax bracket" rate of 22%. The key thing to note in this example is that the last dollar earned is taxed at the 22% tax rate.

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
- tax planning
- investment management
- risk management
- estate 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 allows us to proudly offer you independent financial advice you can trust.

2201 COOPERATIVE WAY, SUITE 150 | HERNDON, VA 20171
(703) 669-3660 | F (703) 880-4905 | www.h4fs.com

At Hughes Financial Services, we strongly believe tax planning should always be an essential focus when reviewing your personal financial situation. Our goal as financial advisors is to point out as many tax savings opportunities and strategies as possible so you don't pay more in taxes than absolutely necessary.

This report reviews some of the broader tax law changes along with a wide range of tax reduction strategies.

We always recommend addressing any strategy with a professional to consider how one strategy may affect another and calculate both state and federal income tax consequences. Tax strategies and ideas that have worked in the past might not work now or even be available under today's tax laws.

As you read along, circle each tax strategy you think could be beneficial but keep in mind that not all ideas are appropriate for everyone. Always attempt to understand the details before making any decisions — it's always easier to avoid a problem than it is to solve one!

TAX ALERT: Your state income tax laws could be different from federal income tax laws. To view a wide range of tax info and access links to tax forms for all 50 states, go to www.tax.findlaw.com.

2022 TAX RATES & INCOME BRACKETS

There are seven federal income tax brackets for 2022. The lowest of the seven tax rates is 10%, while the top tax rate is still 37%. The income that falls into each bracket adjusts each year for inflation. For 2022, see the chart below to see which bracket(s) you fall into.

Not sure how to file? Ask your tax preparer or review IRS Publication 17, Your Federal Income Tax, which is a complete tax resource. It has helpful information such as whether you need to file a tax return and how to choose your filing status.

2022 TAX TABLES

SINGLE FILERS

Up to $10,275	10% of taxable income
$10,276 – 41,775	$1,027.50 + 12% of excess over $10,275
$41,776 – 89,075	$4,807.50 + 22% of excess over $41,775
$89,076 – 170,050	$15,213.50 + 24% of excess over $89,075
$170,051 – 215,950	$34,647.50 + 32% of excess over $170,050
$215,951 – 539,900	$49,335.50 + 35% of excess over $215,950
$539,901 +	$162,718 + 37% of excess over $539,900

MARRIED FILING JOINTLY

Up to $20,550	10% of taxable income
$20,551 – 83,550	$2,055 + 12% of excess over $20,550
$83,551 – 178,150	$9,615 + 22% of excess over $83,550
$178,151 – 340,100	$30,427 + 24% of excess over $178,150
$340,101 – 431,900	$69,295 + 32% of excess over $340,100
$431,901 – 647,850	$98,671 + 35% of excess over $431,900
$647,851 +	$174,253.50 + 37% of excess over $647,850

MARRIED FILING SEPARATELY

Up to $10,275	10% of taxable income
$10,276 – 41,775	$1,027.50 + 12% of excess over $10,275
$41,776 – 89,075	$4,807.50 + 22% of excess over $41,775
$89,076 – 170,050	$15,213.50 + 24% of excess over $89,075
$170,051 – 215,950	$34,647.50 + 32% of excess over $170,050
$215,951 – 323,925	$49,335.50 + 35% of excess over $215,950
$323,926 +	$87,126.75 + 37% of excess over $323,925

HEAD OF HOUSEHOLD

Up to $14,650	10% of taxable income
$14,651 – 55,900	$1,465 + 12% of excess over $14,650
$55,901 – 89,050	$6,415 + 22% of excess over $55,900
$89,051 – 170,050	$13,708 + 24% of excess over $89,050
$170,051 – 215,950	$33,148 + 32% of excess over $170,050
$215,951 – 539,900	$47,836 + 35% of excess over $215,950
$539,901 +	$161,218.50 + 37% of excess over $539,900

THE MOST HELPFUL TAX STRATEGIES CHECKLIST

- ☐ It's always helpful to keep a log of and all the receipts for purchases or services you think could be tax deductible. Sometimes, taxpayers assume that various expenses are not deductible and don't mention them to their tax preparers. Don't assume anything – give your tax preparer the chance to tell you whether something is or is not deductible.
- ☐ Be careful to not overpay your Social Security taxes. If you received a paycheck from two or more employers and earned more than $147,000 in 2022, you may be able to file a claim on your tax return for the excess Social Security tax withholding.
- ☐ Don't forget items carried over from prior years because you exceeded annual limits such as capital losses, passive losses, charitable contributions and alternative minimum tax credits.
- ☐ Check your 2021 tax return to see if there was a 2021 refund applied to your 2022 estimated taxes.
- ☐ Calculate your estimated tax payments for 2023 very carefully. Many computer tax programs will automatically assume that your income tax liability for the current year is the same as the prior year. This is done to avoid paying penalties for underpayment of your estimated income taxes. However, in some cases, this might not be the correct assumption especially if 2022 was an unusual income tax year due to the sale of a business, unusual capital gains, the exercise of stock options or even winning the lottery! **A qualified tax preparer could be very helpful in preparing a tax projection for 2023.**
- ☐ IRS.gov can be a valuable online resource for tax info.
- ☐ Always double check your math where possible and remember it's always wise to consult a tax preparer before filing your taxes.

DID YOU KNOW?

2022 TAX LAW UPDATES

2022 was a busy year for tax legislation in the U.S. Here are some items that 2022 tax filers should review before sending their taxes to the IRS:

- Tax brackets have been slightly adjusted
- The standard deductions have slightly increased
- There are still caps to state and local tax (SALT) deductions
- Long-term capital gains are still at favorable rates
- There is still a 3.8% Medicare Investment Tax
- Charitable donations are still deductible
- You may still be able to contribute to retirement plans
- Medical expense deductions are at 7.5% of AGI for 2022
- Recent legislation such as the SECURE Act and SECURE Act 2.0 made significant changes to tax laws and retirement provisions that can impact your 2022 (and 2023) taxes. We've provided more detailed information on this report's last page.

tax$trategies

2022 STANDARD DEDUCTION AMOUNTS

Most taxpayers claim the standard deduction. For 2022, the standard deduction has slightly increased to $12,950 for single filers, $25,900 for those filing jointly and $19,400 for head of household filers. If you are filing as a married couple, an additional $1,400 is added to the standard deduction for each person age 65 and older or if he/she is blind. If you are single and age 65 or older, an added deduction of $1,750 can be made.

3.8% MEDICARE INVESTMENT SURTAX

The year 2022 is the tenth year of the 3.8% net investment income tax or the Medicare surtax. If you earn more than $200,000 as a single or head of household taxpayer, $125,000 as married filing separately, or $250,000 as married joint return filers, this tax applies to either your modified adjusted gross income or net investment income (including interest, dividends, capital gains, rentals, and royalty income), whichever is lower. This tax is in addition to capital gains or other taxes you already pay on your investment income.

It is helpful to pay attention to timing, especially if your income fluctuates from year to year or is close to the $200,000 or $250,000 amount. Consider realizing capital gains in years when you are under these limits. The inclusion limits may penalize married couples, so realizing investment gains before you get married may help. This tax makes the use of depreciation, installment sales, and other tax deferment strategies suddenly more attractive.

CALCULATING CAPITAL GAINS AND LOSSES

With different tax rates for several types of gains and losses in your marketable securities portfolio, it's a good idea to familiarize yourself with some of the rules:

- Short-term capital losses must first be used to offset short-term capital gains.
- Net short-term losses can be used to offset net long-term capital gains.
- Long-term capital losses are first applied against long-term capital gains, with any excess applied against short-term capital gains.
- Net long-term capital losses in any rate category are first applied against the highest tax rate long-term capital gains.
- Capital losses that are more than your capital gains can be used to offset up to $3,000 of ordinary income ($1,500 if married filing separately).
- Any remaining unused capital losses can be carried forward and used in the same manner as described above.

Always double-check your capital gains or losses. If you sold an asset outside of a qualified account in 2022, you most likely incurred a capital gain or loss. Sales of securities showing the transaction date and sale price are listed on the 1099 form generated by the financial institution. However, your 1099 might not show the correct cost basis or realized gain or loss for each sale. You will need to know the full cost basis for each investment sold outside of your qualified accounts, which is usually what you paid for it, but is not always the case.

TAX TIP

Remember to look at your 2021 income tax return Schedule D (page 2) to see if you have any capital loss carryover for 2022. This is often overlooked, especially if you are changing or have changed tax preparers.

REQUIRED MINIMUM DISTRIBUTIONS (RMDs)

The **SECURE Act** increased the age for Required Minimum Distributions (RMDs) starting January 1, 2020, to age 72. The most recent SECURE Act 2.0 increased the age to start taking RMDs further to age 73 in 2023 and up to age 75 in 2033.

For purposes of tax year 2022, the Required Minimum Distribution age is 72 years old.

CHARITABLE GIFTS AND DONATIONS DEDUCTIONS

For 2022, the rules return to earlier requirements that allow taxpayers to only deduct charitable contributions if they itemize their tax deductions on Schedule A.

For 2022, the 60% of AGI ceiling on charitable cash contributions was restored. To qualify, the charitable gift must be cash (or cash equivalent) donated to a qualified charity (501(c)(3)) and should have been made on or before December 31, 2022.

When preparing your list of charitable gifts, remember to review your checkbook register **AND** credit card statements. Everyone remembers to count the monetary gifts made to charity, but you should count noncash donations as well. Make it a priority to always get a receipt for every gift.

If your contribution totals more than $250, you will also need an acknowledgement from the charity documenting the support you provided. Remember that you will have to itemize to claim this deduction, but when filing, the expenses incurred while doing charitable work often are not included on tax returns.

While you can't deduct the value of your time spent volunteering, the cost of materials bought for a group is deductible as an itemized charitable donation. You can also claim a charitable deduction for the use of your vehicle for charitable purposes, such as delivering meals to the homebound in your community or taking your child's Scout troop on an outing. For 2022, the IRS will let you deduct that travel at .14 cents per mile.

STATE AND LOCAL TAX (SALT) DEDUCTION

Under the 2017 Tax Cuts and Jobs Act (TCJA) state and local tax deductions (SALT) remain at a combined total of $10,000 (or $5,000 for married taxpayers filing separately) for state income and property taxes. This limitation is set to remain through 2025.

MEDICARE HEALTH INSURANCE TAX ON WAGES

If you earn more than $200,000 in wages, compensation, and self-employment income ($250,000 if filing jointly, or $125,000 if married and filing separately), the Affordable Care Act levies a special additional 0.9% tax on your wages and other earned income. You'll pay this throughout the year as your employer withholds the additional Medicare Tax from your paycheck.

If you're self-employed, plan for this tax when you calculate your estimated taxes.

Unfortunately, there's little you can do to reduce the bite of this tax. Requesting non-cash benefits in lieu of wages won't help because they will be included in the taxable amount. If you're self-employed, you could try timing your income and expenses (especially depreciation) to avoid the limit.

INVESTMENT INCOME

Long-term capital gains are taxed at more favorable rates compared to ordinary income. For qualified dividends, investors continue to be taxed at 0%, 15% or 20%.

One tax strategy is to review investments that have unrealized long-term capital gains and sell enough of the appreciated investments to generate long-term capital gains that can push you to the top of your federal income tax bracket. This can be helpful if you are in the 0% capital gains bracket and do not have to pay any federal taxes on this gain. Then, if you want, you can buy back your investment on the same day, increasing your cost-basis in those investments. If you sell them in the future, the increased cost-basis will help reduce long-term capital gains. You do not have to wait 30 days before you buy back this investment — the 30-day rule only applies to losses, not gains.

Note: *This non-taxable capital gain for federal income taxes might not apply to your state taxes.*

TAX TIP

Remember that marginal tax rates on long-term capital gains and dividends can be higher than expected. The 3.8% surtax can raise the effective rate to 18.8% for single filers with income from $200,000 to $459,750 and 23.8% for single filers with income above $459,750. It can raise the effective rate to 18.8% for married taxpayers filing jointly with income from $250,000 to $517,200 and to 23.8% for married taxpayers filing jointly with income above $517,200.

CHILD TAX CREDIT

The American Rescue Plan Act (ARPA) expanded the Child Tax Credit (CTC) but starting in 2022, the credit reverted to the rules in the Tax Cuts & Jobs Act (TCJA) which allows for a maximum tax credit of $2,000 for each qualifying child.

CHILDCARE AND DEPENDENT CARE CREDIT

Millions of parents claim the Child and Dependent Care Credit each year to help cover after-school daycare costs while working. But did you know that this tax credit is often overlooked for claiming childcare costs for summer day camps?

2022 Long-Term Capital Gains Tax Rates

Tax Rate	Single Filer	Head of Household	Married Filers
0%	$41,675 or less	$55,800 or less	$83,350 or less
15%	$41,676 – $459,750	$55,801 – $488,500	$83,351 – $517,200
20%	Over $459,750	Over $488,500	Over $517,200

NOTE: For deduction purposes, the camp can only be a day camp, not an overnight camp.

For 2022, if you paid a daycare center, babysitter, (day) summer camp, or other care provider for a qualifying child under age 13 or a disabled dependent of any age, you may qualify for a tax credit of up to 50% of qualifying expenses of $3,000 for one child or dependent, or up to $6,000 for two or more children.

ROTH IRA CONVERSIONS

A Roth IRA conversion is when you convert part or all your traditional IRA into a Roth IRA. This is a taxable event with the amount converted subject to ordinary income tax. It may also cause your income to increase, subjecting you to the Medicare surtax. Roth IRAs grow tax-free and qualified withdrawals are tax-free in the future, a time when tax rates might be higher.

Converting part or all your traditional IRA to a Roth IRA depends on your situation. It's best to prepare a tax projection and calculate the appropriate amount to convert. You do not have to convert all your IRA to a Roth. Roth IRA conversions are not subject to the pre-age 59½ penalty of 10%.

Many 401(k) plan participants (if their plan allows) can convert the pre-tax money in their 401(k) plan to a Roth 401(k) plan without leaving the job or reaching age 59½. There are a few pros and cons to making this change. **Please call us to see if this makes sense for you.**

RETIREMENT ACCOUNT CONTRIBUTIONS

The 2020 **SECURE Act** allowed people with earned income to make contributions to Traditional IRAs past the age of 70½.

RETIREMENT PLAN	2022 LIMITS
Elective deferrals to 401(k), 403(b), 457(b)(2), 457(c)(1)	$20,500
Defined Contribution Plans	$61,000
SIMPLEs	$14,000
Traditional IRAs	$6,000
Catch-Up Contributions: 401(k), 403(b), 457(b)(2), 457(c)(1)	$6,500
Catch-Up Contributions: SIMPLEs	$3,000
Catch-Up Contributions: IRAs	$1,000

If you have not already funded your retirement account for 2022, consider doing so by April 18, 2023. This is the deadline for contributions to a traditional IRA and a Roth IRA. However, if you have a Keogh or SEP and you get a filing extension to October 15, 2023, you can wait until then to make 2022 contributions. To start tax-advantaged growth potential as quickly as possible, don't delay in making contributions. If eligible, **a deductible contribution will help you lower your tax bill for 2022 and your contributions can grow tax-deferred!**

To qualify for the full annual IRA deduction in 2022, you must either: 1) not be eligible to take part in a company retirement plan, or 2) if you are eligible, there is a phase-out from $68,000 to $78,000 of MAGI for singles and from $109,000 to $129,000 for married taxpayers filing jointly. If you are not eligible for a company plan but your spouse is, your traditional IRA contribution deduction is phased out from $204,000 to $214,000. For 2022, the largest IRA contribution you can make is $6,000 ($7,000 if you are age 50 or older by the end of the calendar year). For self-employed people, the maximum annual addition to SEPs and Keoghs for 2022 is $61,000.

Although contributing to a Roth IRA instead of a traditional IRA will not reduce your 2022 tax bill (Roth contributions are not deductible), it could be the better choice because all qualified withdrawals from a Roth can be tax-free in retirement while withdrawals from a traditional IRA are fully taxable in retirement. To contribute the full $6,000 ($7,000 if you are age 50 or older by the end of 2022) to a Roth IRA, you must have MAGI of $129,000 or less a year if you are single or $214,000 if you are married and file a joint return. **If you have any questions on making retirement contributions, call us.**

STUDENT LOAN INTEREST PAID BY PARENTS

Generally, you can only deduct interest if you are legally required to repay the debt. But if parents pay back a child's student loan(s), the IRS treats the transactions as if the money was given to the child, who then paid the debt. So long as the child is no longer claimed as a dependent, the child can deduct up to $2,500 of student loan interest. **Parents: you cannot claim the interest deduction even though you footed the bill because you are not liable for the debt.**

MEDICAL EXPENSE DEDUCTION

The 2022 threshold for deducting medical expenses is 7.5% of your AGI. At www.IRS.gov is a long list of "medical expenses" that qualify so it's a good idea to review their list if you think they may qualify.

It's ALWAYS a good idea to be Proactive … not Reactive

Actions to consider taking to proactively tax plan for 2023:

- **Prepare a 2023 tax projection:** taxpayers should already know the 2023 rates and by reviewing their 2022 situation and all 2023 income expectations with a qualified tax preparer may be helpful to put together a 2023 tax projection.

- **New contribution limits for retirement savings:** for 2023, the contribution limit for employees taking part in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan remains at $22,500. The limit on annual contributions to an IRA is increased to $6,500. The catch-up contribution limits for those 50 and over remain at $1,000 for IRAs.

- **Take advantage of annual exclusion gifts:** for 2023, the maximum gift tax exemption is $17,000 for single givers and $34,000 for married couples. This means you can give up to that amount to a family member without having to pay a gift tax. Ideas for gifting can include contributing to a working child (or grandchild's) IRA or gifting to a 529 plan, which is a tax-sheltered plan for college expenses.

- **Explore if a potential Roth IRA conversion is helpful for your situation:** a Roth IRA can be beneficial in your overall retirement planning. Roth IRA investments have the potential to grow tax-free, and they do not have required minimum distributions during the lifetime of the original owner. Roth IRA assets may pass to your heirs tax-free. Roth conversions include complex details and are not right for everyone. Also, some recent proposals have suggested changes about which IRAs may be converted to ROTH IRAs. For updates and to review if a ROTH conversion makes sense for you, please reach out to us.

- **Consider bunching your charitable donations into a Donor Advised Fund (DAF):** now is the time to explore if it is helpful to your tax situation to deposit cash, appreciated securities or other assets in a Donor Advised Fund, and then distribute the money to charities over time. Up to 60% of your adjusted gross income can be deductible if given as donations to typical charities.

Talk with us about your situation … that's what we're here for! We enjoy helping you pursue your goals and appreciate the opportunity to be stewards of your wealth. Reach out with questions and concerns.

SECURE ACT 2.0

As you may have seen, there's big news from Congress on the retirement front. The passing of SECURE ACT 2.0, a giant piece of bipartisan retirement security legislation could present significant opportunities for your retirement savings strategy. While the full piece of legislation is nearly 400 pages long, here are 10 key points we'd like to highlight here:

In 2023

1. **Required Minimum Distribution Age:** increases from age 72 to age 73, effective January 1, 2023
2. **Rothification!** starting this year, employers can match employee contributions after-tax via a Roth account match
3. **Qualified Charitable Distributions (QCD):** the law allows a one-time QCD of $50,000 to charities via a charitable gift annuity, charitable remainder unitrust, or charitable remainder annuity trust
4. **Failure to Take RMD Penalty Tax:** Reduces the penalty tax for failures by an individual to take the Required Minimum Distribution (RMD) from 50% to 25%. Further, if the failure is corrected promptly, the excise tax is reduced from 25% to 10%.

In 2024

5. **Qualified Charitable Distributions:** A QCD allows IRA owners age 70½ and older to donate up to $100,000 each year to qualified charities through a non-taxable distribution from their IRA. In 2024, the new law indexes the current $100,000 annual limit for inflation.
6. **Catch-Up Contributions for Roth Accounts:** Individuals with compensation over $145,000 (indexed to inflation) will be able to make catch-up contributions only to employer plan (after tax) Roth Accounts effective in 2024
7. **Student Loan Payments/401(k) Match:** Employers may choose to "match" employee student loan payments with matching payments to a retirement account, providing a great benefit for those juggling large student loan debts and expenses. Contributions to a 401(k), no matter how small, can add up over time, thanks to the power of compounding.
8. **529 Conversion to Roth IRAs:** Some individuals may move 529 plan funds directly into a Roth IRA. The Roth IRA must be in the name of the beneficiary of the 529; the 529 must have been maintained for 15 years or longer; contributions and earnings in the previous 5 years are ineligible (that may be a headache!); the maximum in any one year counts as the annual contribution limit for the Roth IRA; and the maximum lifetime is $35,000.

In 2025

9. **Catch-Up Retirement Contributions Limits:** Will increase in 2025, allowing workers aged 60-63 to make larger catch-up contributions to most employer retirement plans

In 2033

10. **Required Minimum Distribution Age:** increases AGAIN from age 73 to age 75, effective January 1, 2033