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As we write our annual newsletter, we are constantly reminded that this is no ordinary year. This year has been full of twists and turns creating bursts of emotions and negativity. Many in this world have experienced loss of life, livelihood, education, and the most basic human needs- warm embrace from another human being. While many are facing difficult times, business does not stand still.

We do not get to control much of the above, we can control how we feel, and we are choosing to feel gratitude. We are so incredibly grateful to all our clients who have become our family over theses many years.

With our year-end letter, we have always urged readers to not only do their annual tax planning, but to use this period to conduct a full financial review of their portfolios and estate planning as well. This year, such a financial review is not just recommended, it is critical.

Wishing you all a healthy, wealthy and a prosperous New Year.

Federal Income Tax Filing Deadline:

The filing deadline for the year 2022 is Tuesday April 18, 2023.

2022 Individual Tax Provisions:

2022 tax brackets (taxes due April 2023 or October 2023 with an extension)				
Tax rate	Single	Head of household	Married filing jointly or qualifying widow	Married filing separately
10%	$0 to $10,275	$0 to $14,650	$0 to $20,550	$0 to $10,275
12%	$10,276 to $41,775	$14,651 to $55,900	$20,551 to $83,550	$10,276 to $41,775
22%	$41,776 to $89,075	$55,901 to $89,050	$83,551 to $178,150	$41,776 to $89,075
24%	$89,076 to $170,050	$89,051 to $170,050	$178,151 to $340,100	$89,076 to $170,050
32%	$170,051 to $215,950	$170,051 to $215,950	$340,101 to $431,900	$170,051 to $215,950
35%	$215,951 to $539,900	$215,951 to $539,900	$431,901 to $647,850	$215,951 to $323,925
37%	$539,901 or more	$539,901 or more	$647,851 or more	$323,926 or more

The number of brackets remained the same at seven. The tax bracket thresholds increased significantly for each filing status.

2022 Standard Deduction and Personal Exemptions:

The IRS recently released the new tax brackets and standard deduction amounts for the 2022 tax year (the tax return you'll file in 2023).

Filing Status	2022
Single	$12,950
Married filing jointly	$25,900
Head of Household	$19,400

2022 Itemized Deductions:

Several key changes are coming for itemized deductions.

- **Medical and dental expenses**: - the IRS allows all taxpayers to deduct their total qualified unreimbursed medical care expenses that exceed 7.5% of their adjusted gross income if the taxpayer uses IRS Schedule A to itemize their deductions.

- **State and local income taxes and property taxes: -** The Schedule A deduction for state and local taxes (SALT) used to be unlimited. These include income taxes (or general sales taxes), real estate, and personal property taxes. With the passage of the TCJA, the SALT deduction is now limited to $10,000 ($5,000 if married and filing separately).
- **Home mortgage interest: -** Signed in 2017, the Tax Cuts and Jobs Act (TCJA) changed individual income tax by lowering the mortgage deduction limit and putting a limit on what you can deduct from your home equity loan debt. Before the TCJA, the mortgage interest deduction limit was $1 million. Today, the limit is $750,000. That means this tax year, single filers and married couples filing jointly can deduct the interest on up to $750,000 for a mortgage if single, a joint filer or head of household, while married taxpayers filing separately can deduct up to $375,000 each.
- **Gifts to charity: -** Charitable deduction allowances have been extended as a result of the Consolidated Appropriations Act, 2021 or "second stimulus" legislation from Dec. 2020. For your 2020 and 2021 Tax Return, you can have a charitable deduction of up to $300 made during 2020 or 2021, and you don't need to itemize to have this deduction. This does not apply to 2022 Returns or any other year. The gift must go directly to charity in cash rather than to a donor-advised fund or private foundation. Otherwise, you generally need to itemize to take the charitable deduction, which fewer people do since the standard deduction doubled a few years ago. Married joint filers can take an above-the-line deduction up to $600 for such contributions in 2022 and in future years.
- **Casualty and theft losses: -** The itemized deduction for personal casualty and theft losses has been removed for Tax Years 2018 through 2025 with the exception of losses attributable to a federal disaster as declared by the President. If you have these losses to report, only losses in excess of 10% of your adjusted gross income (AGI are deductible.

2022 Alternative minimum tax:

The Alternative Minimum Tax (AMT) was created in the 1960s to prevent high-income taxpayers from avoiding the individual income tax. This parallel tax income system requires high-income taxpayers to calculate their tax bill twice: once under the ordinary income tax system and again under the AMT. The taxpayer then needs to pay the higher of the two.

The AMT uses an alternative definition of taxable income called Alternative Minimum Taxable Income (AMTI). To prevent low- and middle-income taxpayers from being subject to the AMT, taxpayers are allowed to exempt a significant amount of their income from AMTI. However, this exemption phases out for high-income taxpayers. The AMT is levied at two rates: 26 percent and 28 percent.

Filing Status	Exemption Amount
Unmarried Individuals	**$75,900**
Married Filing Jointly	**$118,100**

In 2022, the 28 percent AMT rate applies to excess AMTI of $206,100 for all taxpayers ($103,050 for married couples filing separate returns).

2022 Child tax credit:

The Child Tax Credit was reduced to 2,000 dollars per eligible child for tax year 2022, and the 300 dollars advance monthly installments were no longer available. The Child Tax Credit is scheduled to stay at 2,000 dollars per eligible child for tax year 2023, but without any upfront monthly payments.

2022 Section 529 plans:

529 plans do not have annual contribution limits. However, contributions to a 529 plan are considered completed gifts for federal tax purposes, and in 2022 up to $16,000 per donor ($15,000 in 2021), per beneficiary qualifies for the annual gift tax exclusion.

2022 Roth IRAs:

The maximum total annual contribution for all your IRAs combined is Tax Year 2022 - $6,000 if you're under age 50 / $7,000 if you're age 50 or older.

2022 Health insurance:

This repeal is still in effect in 2021, eliminating the fine for those without health insurance plans in most states. A few states do have their own mandates in 2022, including California, Connecticut, Hawaii, Maryland, Minnesota, Rhode Island, and Washington.

2022 Estate tax:

In 2022, the federal estate tax ranges from rates of **18% to 40%** and generally only applies to assets over $12.06 million. In 2023, the exemption rises to $12.92 million.

2022 Business Tax Provisions

Unlike the individual tax provisions in the new law, the key provisions relating to businesses are generally permanent. Following is a brief rundown.

Corporate tax rates: If you do a quick read of the Tax Cuts and Jobs Act (TCJA) you'll see that the new C Corporation tax rate is 21% while the top individual rate is 37%. Also, individuals are allowed a 20% deduction for passthrough income.

Pass-through entities: Under the new law, pass-through entities -- such as partnerships, S corporations, limited liability companies (LLCs), and sole proprietors -- can claim a 20% deduction on earnings, subject to special rules and restrictions. The deduction is not available to higher-income personal service providers.

Section 179 deduction: For tax years beginning in 2022, the maximum section 179 expense deduction is $1,080,000. This limit is reduced by the amount by which the cost of section 179 property placed in service during the tax year exceeds $2,700,000.

2022 Luxury car rules:

Under §280F, passenger automobiles, trucks and vans are subject to special annual depreciation limits, known as luxury auto limits. These limits begin to apply for cars costing at least $19,000.

2022 Section 199 deductions:

The qualified business income deduction (QBI) is a tax deduction that allows eligible self-employed and small-business owners to deduct up to 20% of their qualified business income on their taxes. In general, total taxable income in 2022 must be under $170,050 for single filers or $340,100 for joint filers to qualify.

2022 Corporate AMT:

The Tax Cuts and Jobs Act repealed the AMT on corporations. Conforming changes also simplified dozens of other tax code sections that were related to the corporate AMT. The TCJA also allows corporations to offset regular tax liability by any minimum tax credit they may have for any tax year.

2022 Meals and Entertainment deductions:

As part of the Consolidated Appropriations Act signed into law on December 27, 2020, the deductibility of meals is changing. Food and beverages will be 100% deductible if purchased from a restaurant in 2021 and 2022. Entertaining clients (concert tickets, golf games, etc.)

IRS meal allowance for 2022- The amount of the $297 high rate and $204 low rate that is treated as paid for meals for purposes of § 274(n) is $74 for travel to any high- cost locality and $64 for travel to any other locality within CONUS.

2022 Interest deductions:

The limit is increased to 50 percent of ATI for the 2019 or 2020 tax year for any taxpayer other than a partnership in response to the COVID-19 (coronavirus) crisis. In the case of partnership, the 50 percent limit applies only for the tax year beginning in 2020 with a special allocation of excess business interest expense to partners for the 2019 tax year unless the partner elects otherwise. A taxpayer may elect not to use the 50 percent ATI limit in 2019 or 2020 but continue to use the 30 percent limit. In addition, a taxpayer may elect for any tax year beginning in 2020 to use its ATI from the 2019 tax year to calculate its section 163(j) limit.

Any business interest not deductible as a result of the limit generally may be carried forward indefinitely to succeeding tax years. The limit applies to all taxpayers except a small business with average annual gross receipts for the three prior tax years that do not exceed a threshold amount ($27 million for 2022 and $29 million for 2023). It also does not apply to certain excepted businesses including a trade or business of providing services as an employee, an electing real property business, an electing farming business, and certain regulated utility businesses.

2022 Foreign taxes:

The Foreign Earned Income Exclusion (FEIE, using IRS Form 2555) allows you to exclude a certain amount of your FOREIGN EARNED income from US tax. However, you may qualify to exclude your foreign earnings from income up to an amount that is adjusted annually for inflation $112,000 for 2022, and $120,000 for 2023. One of the main catalysts for the IRS to learn about foreign income, which was not reported, is through FATCA, which is the Foreign Account Tax Compliance Act. In accordance with FATCA, more than 300,000 FFIs (Foreign Financial Institution) in over 110 countries actively report account holder information to the IRS.

2022 Net Operating Losses (NOLs):

The CARES Act allows firms to carry back losses in tax years beginning after December 31, 2017, and before January 1, 2021 (for calendar year firms, covering 2018, 2019, and 2020) for up to five years. NOLs carried back can also offset 100% of taxable income—an increase from the 80% offset under permanent law.

Life insurance

Life insurance can replace income, offer a way to equalize assets among children active and inactive in a family business, provide cash to pay estate tax or be a vehicle for passing leveraged funds free of estate tax.

Life insurance process generally are not subject to income tax. But if you own the policy, the proceeds will be included in your estate.

Always, consider why you want the insurance, such as to replace income, to provide liquidity or to transfer wealth to your heirs.

Living Trust

All estate planning is not about dying. It is about your control over your assets- control while you are living and control after your death.

A living trust, specifically a revocable living trust, helps individuals have greater control over their assets and have their wishes carried after they die. A Living trust can help save the expense and delay of probate, which can last as long as three years and take up to 10-15% of an individual's estate's value.

It is a legal document that places your assets—investments, bank accounts, real estate, vehicles, and valuable personal property—in trust for your benefit during your lifetime and spells out where you'd like these things to go upon your death. Because it is *revocable* you can cancel or change it at any time during your lifetime.