HIGHTOWER
Westchester

2022 Year-End Tax Planning Opportunities

From a tax perspective, 2022 has been relatively dull versus expectations this time last year. Sweeping proposed tax law changes were for the most part unrealized, and those that did materialize through the Inflation Reduction Act were mostly focused on corporations rather than individual taxpayers.

But don't let the current lull in tax headlines deter you from proactive tax planning. Every year brings the potential to unearth savings, and only a few years remain before many significant changes to tax code enacted by the Tax Cuts and Jobs Act (TCJA) of 2017 are set to expire.

With that in mind, here are opportunities to discuss with your advisors as soon as possible before year end. While far from exhaustive, the list highlights the extent of possibilities afforded by collaborating with experienced professionals who are familiar with complicated tax code and with your unique financial goals.

INCOME TAX PLANNING

- Review your payroll tax withholding: Evaluate your withholding elections for 2022 to ensure you will have enough (but not too much) federal and state taxes taken from your paycheck in 2023.
- Harvest tax losses: Consider harvesting losses in your taxable accounts — the practice of selling investments trading at a loss, replacing them with similar assets (while being careful not to run afoul of the "wash sale" rule[i]), and then offsetting gains with those losses. After capital gains and losses are netted against one another, any remaining losses can be used to offset ordinary income up to $3,000 per year and carried over in unlimited amounts until exhausted to be used against future gains and income. This means that even if you haven't realized any gains this year, you may still benefit from harvesting losses.
- Monitor the Alternative Minimum Tax: If you expect to be subject to the AMT, consider shifting income and deductions from one year to another, to the extent possible, to minimize your overall income tax liability.
- Evaluate whether you meet the threshold for the 3.8% net investment income tax: Consider whether there are strategies to defer and/or reduce your modified adjusted income (MAGI) to reduce or avert the 3.8% surtax on net investment income (which, in 2022, applies to MAGI over $200,000 for individuals and $250,000 for married couples filing jointly).
- Fully fund health savings accounts (HSAs): If you participate in a high-deductible health insurance plan, you are eligible for an HSA to help offset out-of-pocket medical expenses. HSAs offer significant, triple-tax benefits: Contributions are tax-deductible, grow tax-deferred and are not taxed when withdrawn to cover eligible health care expenses.
- Spend flexible spending account (FSA) money: If you have one, confirm that you have spent the entire balance in your FSA by the plan deadline. FSAs generally have a "use it or lose it" rule, meaning you must incur qualifying expenditures by the last day of the plan year — or at the latest, by the 15th day of the third month following the close of the plan year.
- Fund 529 accounts: While there are no deadlines for making contributions to 529 college savings plans, many states offer state income tax deductions or credits for contributions. Check with your advisors to understand if you qualify, and if so, if funding more this year could help offset your taxable income.

- Consider a securities-backed loan: You may want to carefully evaluate — with your advisors —borrowing against your securities rather than selling them to raise cash needed to pay taxes. This allows you to avoid triggering capital gains taxes while providing the opportunity to benefit from leverage: Especially with a low-interest collateralized loan, the growth potential of your investments may exceed your cost of credit.
- Consider a change in state residency: If you plan to change your state residency for tax purposes, particularly if you have multiple residences, make sure you have taken all necessary actions to qualify for residency in the new state (e.g., spending enough days there, registering for a driver's license, changing your mailing address, etc.).

RETIREMENT TAX PLANNING

- Maximize your retirement plan contributions: Confirm that you have contributed the maximum amounts allowed under current tax law — and feasible given your financial situation — to your retirement accounts. In addition to contributions to employer-sponsored plans, this may also include:
  - You and/or your non-working spouse contributing to an IRA or Roth IRA
  - Making additional catch-up contributions if you are age 50 or older
  - If self-employed, deferring large amounts of earnings through simplified employee pension (SEP) IRAs.
- Strategically take your required minimum distribution (RMD): If you are 72 or older, or the beneficiary of inherited IRA assets subject to mandatory withdrawals, make sure to take your RMD before year-end (or by April 1, 2023, if you turned 72 this year) and think strategically about how you do so. For example, time the withdrawal around any major expenditures so that you don't need to take withdrawals from taxable accounts. Or, if you have significant charitable intentions, consider making a qualified charitable distribution (QCD) — an otherwise taxable distribution of up to $100,000 from an IRA to a qualified charity.
- Consider converting your traditional IRA to a Roth IRA: Owners of traditional IRAs may convert them into Roth IRAs, which involves taking an immediate income tax hit in exchange for future tax-free withdrawals. Generally speaking, Roth conversions may be beneficial in scenarios where your income tax rate is relatively low (e.g., in retirement), when asset prices are depressed and/or if you don't expect to need your Roth IRA assets during your lifetime.

GIFT AND ESTATE TAX PLANNING

- Gift to family members: If you plan to transfer assets to your loved ones, consider taking advantage of the annual gift tax exclusion — the maximum you can give to a single person within a calendar year without needing to pay gift tax. For 2022, this amount is $16,000 per recipient for an individual and $32,000 per recipient for a married couple. Note that direct payments of tuition and medical expenses do not count toward these limits; these types of gifts have unlimited exclusions. For example, you could even "front-load" a 529 plan with five years' worth of annual exclusions, allowing a greater amount of assets to grow tax free for a longer period of time.
- Transfer wealth to your family ahead of lower exemption amounts and higher valuations: If you plan on transferring significant wealth to your loved ones, consider taking advantage of increased exemption amounts (in 2022, $12.06 million per person and $23.4 million per married couple), which will be cut

roughly in half when they expire at the end of 2025. There are several tax efficient estate planning strategies to consider, including grantor retained annuity trusts (GRATs) and other types of grantor trusts, gifting stocks, and intrafamily transactions and installment sales — techniques that are potentially even more efficient this year, given lower asset values.

- Use one spouse's exemption first: If you are married, consider exhausting one spouse's full exemption instead of using part of each of your exemptions, because if the exemption does revert back to 2017 levels (adjusted for inflation), one spouse will still have their exemption.

For more detail on any of the above strategies, or for additional tax planning ideas, please reach out to us and we can collaborate with you and your tax advisor. We look forward to hearing from you soon.

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