2022 NEWSLETTER

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Happy New Year!

We hope this letter finds you healthy and well in these crazy times. Before we get into the tax news, congratulations are in order for Jen who achieved her CPA designation early last year! Years of studies and testing were rewarded, and she continues to gain valuable experience as a partner in the practice. Please feel free to reach out to her for questions as you would for David.

We also survived another extended tax season that again, had many tax changes. As you may be aware, new tax legislation was proposed several times in 2021, including changes to tax rates, but most were not passed, and enactment of additional significant changes for 2021 is unlikely at this point. We have included the 2021 and 2022 tax changes that are most likely to affect your situation, as well as some additional tax planning strategies and advice to keep in mind as we look forward to tax year 2022 and beyond.

Cypress Tax Secure Online Portal – TaxDome

Many of you have already logged in and are utilizing our new secure tax portal, TaxDome. We tested it with a small number of clients in the 2020 tax season with great success and it is now available to all clients. You will be able to receive and view tax returns, upload tax documents, sign your returns via E-Signature and even pay your Cypress invoice via electronic ACH via the portal. If you have questions or would like more information, please let us know. We are also happy to help you through the upload process or navigating the system if needed.

Environmental Initiative and Credits

In an effort to streamline our processes at Cypress Tax and cut down on unnecessary paper usage, we have moved to electronic tax return delivery via the TaxDome portal unless otherwise specified. If you would still like to receive a paper copy of your tax returns and have not already notified us, please let us know.

Credits for solar energy improvements to your home and purchases of certain electric vehicles remain available. The solar credit remains at 26% for both 2021 and 2022 for qualified expenses. The credit for purchases of qualified electric vehicles of up to $7,500 is still available for many new vehicles. An updated list of qualified vehicles is available on irs.gov. Keep in mind, it is only available for the first 200,000 cars produced by each manufacturer and, as a result, credits are no longer available for Tesla purchases.

Stimulus Checks

The COVID pandemic resulted in three rounds of stimulus checks, the first two of which were reconciled on your 2020 tax return. The last stimulus checks were issued in March/April 2021 for a maximum amount of $1,400 per person, and will be reconciled on your 2021 tax return. Please let us know the amount you received. If your income decreased in 2021 or you have a new dependent, additional stimulus funds may be able to be recovered as a refundable tax credit.

Remote Working Between States

In response to COVID, remote working has increased dramatically. This can create complex state and local tax issues if more than two states or cities are involved. A critical factor to give us the opportunity to keep your state and local tax at a minimum and avoid notices is to notify your employer immediately of your new address once it becomes your primary work location, and have them adjust your withholding accordingly.

Standard Deduction

The new higher standard deduction amounts continue to be in effect for 2021 and 2022. The standard deduction for 2021 is $12,550 for single filers ($25,100 joint). For those 65 or older, the standard deduction is $13,900 for single filers ($27,800 joint or $26,450 if only one spouse is 65 or older). Because of the high standard deductions and SALT limits discussed below, itemizing deductions only reduces taxes if there are large medical expenses, mortgage interest, or significant charitable deductions.

State and Local Taxes (SALT)

State and local tax payments are again only deductible up to $10,000 per return. This includes state and local income taxes as well as property taxes and sales taxes. Please note there is no cap or limitation for real estate taxes for rental properties or businesses.

Mortgage Interest

Mortgage interest continues to be deductible on principal balances of first and second homes up to a combined amount of $750,000. For homes purchased before December 17, 2017, this limit is increased to $1,000,000. This higher limit also applies to refinancings after 2017 up to the unpaid pre 12/17/17 loan amount. Home equity loan interest is generally no longer deductible unless the proceeds were used to substantially improve your first or second home.

Expanded Child Tax Credit for 2021 ONLY

The Child Tax Credit has been significantly increased and expanded for 2021. It now applies to children 17 or under on 12/31/21, with a maximum credit of $3,600 per child for children under 6, and $3,000 for children 6 to 17. Keep in mind, this credit is subject to phase-out depending on your income.

In order to get funds to taxpayers early during the pandemic, 50% of the expected credit was advanced monthly from July to December, 2021. Advance payments stopped in January, 2022. Maximum advance payments were $250 per month for children 6 to 17 and $300 per month for those under 6. The credit will be reconciled on the 2021 tax return, any remaining credit will be refunded and any overpayment must be paid back. If you opted out of the advance payments, you will receive the entire credit allowed on your 2021 tax return. The income phase-out of this credit starts at $75,000 Single and $150,000 Joint, and begins to fully phase out for income levels over $200,000 Single and $400,000 Joint.

Expanded Dependent Care Credit for 2021 ONLY

The credit for qualified dependent care expenses has also been significantly increased for 2021. The credit only applies to children under 13 for days when all parents are working. The credit is 50% of eligible expenses up to $8,000 for one child and $16,000 for two or more for a maximum credit of $8,000. Phase out of the credit starts at AGI of $125,000 and is fully phased out at $438,000. W-2 employees could exclude up to $10,500 through a dependent care reimbursement plan in 2021 but only if the employer adopted the change. The dependent care credit is scheduled to revert back to 2020 levels for 2022.

Miscellaneous Tax Changes

- The charitable deduction for non-itemizers remains at $300 for Single filers but has increased to $600 for Joint filers in 2021
- The floor for medical expenses to be taken as an itemized deduction which had been 10% for some taxpayers is now permanently set at 7.5%
- Mortgage insurance premiums continue to be deductible for some taxpayers for 2021.
- The 50% deduction for business meals increased to 100% for restaurant meals, only for 2021 and 2022, as long as they are separately stated in your books.
- The maximum limitation on cash charitable deductions remains at 100% of adjusted gross income (AGI) for 2021, but returns to 60% in 2022.
- The annual gift tax exclusion is $15,000 for 2021 but increases to $16,000 for 2022.
- Forgiveness of student loan debt is not taxable for 2021 through 2025.

TAX PLANNING OPPORTUNITIES

Cryptocurrency Transactions

Investing in cryptocurrencies continues to gain popularity. Like other sales, recognized gains and losses from sales of cryptocurrency must be reported on your tax return. Because there is no required reporting on Form 1099-B, if you sold cryptocurrency in 2021, please request a report from your investment platform of the sales so we can include them in your tax return. Consideration should be given to the method of cost allocation, as it needs to be consistent once elected, and can make a large tax impact. Also, keep in mind wash sale rules regarding loss transactions still do not apply to cryptocurrency at this time but proposed changes may end this opportunity.

Gain Exclusion on Qualified Small Business Stock

An exclusion of gain of up to $10 million continues to be allowed on sales of Qualified Small Business Stock (QSBS) held more than five years. The 100% exclusion applies to gains on purchases after 9/27/10, 75% on purchases from 2/17/09-9/27/10 and 50% on purchases before 2/17/09. Gifting strategies can be utilized to maximize the exclusion further if the gain exceeds the limitations.

Year-Round Tax Loss Harvesting

Many brokers contact clients at year-end to consider sale of positions which have an unrecognized loss to reduce taxes. Keep in mind, this can be done at any time during the year and is an excellent way to increase the return on your investments by reducing taxes. For example, during the market correction in March of 2020, sale of loss positions created a tax loss which would have gone unrecognized without the sale. Keep in mind, wash sale provisions prevent repurchase of positions sold at a loss within 30 days or less.

Adding Children to Payroll

Self-employed taxpayers can realize substantial tax savings by hiring their children. Adding children to the payroll can take advantage of lower income tax brackets, better utilize education credits, save FICA taxes and allow for Roth contributions which can compound for many years. If you are self-employed and have dependent working age children, consideration should be given to this planning strategy.

Stock Options, Restricted Stock Units and Employee Purchase Plans
Tax planning with respect to Non-qualified stock options (NQSOs), Incentive stock options (ISOs), Restricted Stock Units (RSUs) and Employee Stock Purchase Plans (ESPPs) is critical to maximize your after-tax return. Many situations involve complex planning with consideration given to Federal and State income taxes, capital gains taxes, alternative minimum tax, cost determination method, etc. We have considerable experience in this area and encourage clients to contact us to review alternative strategies.

One particular planning opportunity surrounding ESPPs relates to ESPP plans held within a qualified retirement plan at work. If there is significant unrealized gain in the employer shares, consideration should be given to taking a distribution of the employer shares from the plan, paying tax on the cost basis and holding the shares for more than one year, thereby reducing the tax on the appreciation from ordinary rates to capital gains rates.

529 Education Savings Accounts
Section 529 education savings accounts remain a tax effective way to save for college and graduate school, but the funds are now also available to be used for up to $10,000 per year for private school tuition and books in primary and secondary school without incurring federal income tax on the transaction. 529 accounts allow tax-free growth as long as the funds are eventually used for education related expenses, and can even be transferred person to person for future generational education spending. Many states including PA, NY and SC also allow a state income tax deduction for 529 contributions. Also, tax-free distributions from 529 accounts of up to $10,000 per lifetime can now be made for student loan payments (including principal and interest) for the taxpayer or their siblings.

Roth IRAs
We continue to recommend planning to maximize savings in Roth IRAs. Roth IRAs are particularly tax efficient as all growth is completely tax-free if distributions are taken more than five years after the contribution date and after age 59½. Roth contributions are allowed for 2021 until 4/18/22 up to the lesser of earned income or the amounts below if modified AGI is below $125,000 Single or $198,000 Joint. Maximum contributions to other common retirement vehicles are also listed in the table below.

Larger Roth contributions can be made through conversions from existing Traditional IRAs or qualified plans. There is currently no income limit on conversions but ordinary income tax is due on all pre-tax dollars converted to Roth, so your current marginal bracket and expected marginal bracket in retirement should be considered. After-tax contributions from qualified plans can also be converted without additional tax, but careful planning is needed due to several limitations in this alternative.

MAXIMUM DEDUCTIBLE RETIREMENT CONTRIBUTIONS

	2021	Catch-up	2022	Catch-up
Traditional IRA	$6,000	+$1,000 over 50	$6,000	+$1,000 over 50
Roth IRA	$6,000	+$1,000 over 50	$6,000	+$1,000 over 50
401(k)	$19,500	+$6,000 over 50	$20,500	+$6,500 over 50
SIMPLE IRA	$13,500	+$3,000 over 50	$14,000	+$3,000 over 50
SEP IRA / Solo 401(k)	$58,000		$61,000	

Tax Rates – Ordinary Income — SINGLE FILERS

2021		
Rate	Starts	Ends
10%	$0	$9,950
12%	$9,951	$40,525
22%	$40,526	$86,375
24%	$86,376	$164,925
32%	$164,926	$209,425
35%	$209,426	$523,600
37%	$523,601	and over

2022		
Rate	Starts	Ends
10%	$0	$10,275
12%	$10,276	$41,775
22%	$41,776	$89,075
24%	$89,076	$170,050
32%	$170,051	$215,950
35%	$215,951	$539,900
37%	$539,901	and over

Tax Rates – Ordinary Income — JOINT FILERS

2021		
Rate	Starts	Ends
10%	$0	$19,900
12%	$19,901	$81,050
22%	$81,051	$172,750
24%	$172,751	$329,850
32%	$329,851	$418,850
35%	$418,851	$628,300
37%	$628,301	and over

2022		
Rate	Starts	Ends
10%	$0	$20,550
12%	$20,551	$83,550
22%	$83,551	$178,150
24%	$178,151	$340,100
32%	$340,101	$431,900
35%	$431,901	$647,850
37%	$647,851	and over

Tax Rates – Capital Gains and Qualified Dividends — SINGLE FILERS

2021		
Rate	Starts	Ends
0%	$0	$40,400
15%	$40,401	$445,850
20%	$445,851	and over

2022		
Rate	Starts	Ends
0%	$0	$41,675
15%	$41,676	$459,750
20%	$459,751	and over

Tax Rates – Capital Gains and Qualified Dividends — JOINT FILERS

2021		
Rate	Starts	Ends
0%	$0	$80,800
15%	$80,801	$501,600
20%	$501,601	and over

2022		
Rate	Starts	Ends
0%	$0	$83,350
15%	$83,351	$517,200
20%	$517,201	and over

Keep in mind, an additional tax of 3.8% applies to net investment income for adjusted gross income (AGI) over $200,000 Single and $250,000 Joint. Net investment income generally includes interest, dividends, capital gains, royalties and rental income.