2022 Year-End Tax Planning Letter

As we approach the end of the year it is helpful to reflect on steps that can be taken to reduce taxes that otherwise would be due. While there always is talk of changes in the taxes applicable to individuals, little has actually changed this year, so far. After the Democrats' "Build Back Better" legislative agenda seemed all but dead, a surprise change of heart by Senator Joe Manchin (D-WV) led to the passage of a slimmed down version of the bill named the "Inflation Reduction Act." Significantly, the Inflation Reduction Act (Public Law 117-169) did not include many of the individual tax changes that the Biden Administration originally proposed and that were included in the various iterations of the House of Representative's version of the Build Back Better Act. Nevertheless, the Inflation Reduction Act did include some tax incentives relevant to individuals.

With the midterm elections approaching, it seems unlikely that Congress will pass any significant individual tax legislation, although a "lame duck" package at the end of the year is possible. However, legislative proposals aimed at boosting retirement savings have gained significant traction in the House and Senate may yet be enacted this year.

We discuss possible end-of-year planning ideas below as well as the most significant legislative proposals that could affecting individuals this year or beginning in 2023.

I. Key Considerations for Year-End Tax Planning

- ***Use appreciated assets to make a charitable gift in 2022.*** As in previous years, gifts of appreciated assets (stock) remain a best practice. Such gifts not only provide a deduction to the donor but also avoid the capital gains tax. Conversely, built-in loss assets generally should be sold (generating a tax loss) with the resulting cash proceeds donated, if desired. Note that, as in previous years, up to $3,000 of capital losses may be used to offset ordinary income.

- ***Consider donating to a DAF this year for maximum flexibility.*** If you are considering making a significant donation to charity over time but want a deduction today, consider adding funds to an existing Donor Advised Fund (DAF) or opening a new DAF. It can be especially beneficial to donate appreciated property, because by doing so capital gains taxation with respect to the contributed assets is eliminated. Federations and Jewish Community Foundations operate donor-advised funds and would be happy to assist.

- ***Look into an IRA charitable rollover.*** The IRA charitable rollover is an attractive option because it can help satisfy the minimum distribution requirement without incurring income tax, even if you don't itemize your deductions. If the proposed legislation expanding the amount and nature of rollovers is enacted, this option will become even more attractive.

- ***Consider taking advantage of energy incentives in the Inflation Reduction Act.*** As you plan for 2023, consider taking advantage of the new and newly expanded and extended green energy incentives that are provided by the Inflation Reduction Act, including the tax credits for rooftop solar panels, insulation, electric vehicle purchases, and energy efficient home improvements. Each of these incentives has somewhat complex rules, and some do not go into effect until 2023, so careful research is required.

- ***Consider accelerating noncharitable gifts***. The unified estate/gift credit of $12.06 million is scheduled to automatically reduce to around $6 million beginning with transfers made in 2026. Accordingly, taxpayers who intend to make significant gifts (either during their lifetime or in the form of bequests) may want to consider accelerating some or all of those gifts early.

As with any significant tax and charitable planning, it is always advisable to carefully consider potential changes in the context of your complete financial profile and to consult your tax advisor. We also recommend that you monitor the following legislative proposals as they will be considered by Congress later this year.

II. Legislative Proposals

- ***Expansion of the universal charitable deduction for non-itemizers.*** Proposed legislation (S. 618 and H.R. 1704) seeks to expand the universal charitable deduction first enacted in the CARES Act, the COVID relief legislation passed in March 2020. The proposed legislation would allow a charitable deduction of up to one-third of the standard deduction available to non-itemizers (about $4,000 for individual filers and $8,000 for a joint return). In addition, it is possible that a year-end tax package could provide an "above the line" deduction of $300 ($600 for a joint return) similar to what was available for 2021.

- ***Expansion of the IRA Charitable Rollover.*** Bipartisan legislation that has passed the House (the Securing Strong Retirement Act, H.R. 2954) has been introduced in the Senate (Enhancing American Retirement Now Act, S. 4808). It would make changes to the IRA Charitable Rollover regime, indexing the current $100,000 rollover amount for inflation and permitting one-time transfers to charitable remainder trusts and gift annuities of up to $50,000.

Disclaimer*: *JFNA and TOP Jewish Foundation do not provide tax advice. Please consult with your professional advisor before taking any action. If you have any questions, please contact Dirk Bird, Vice President of Planned Giving and Endowment at dirk.bird@jewishfederations.org or 303-669-5942 or Ellen Weiss, Executive Director at ellen@topjewishfoundation.org or 813-769-4785.