

NOVEMBER 16, 2021

Don't forget to factor 2022 cost-of-living adjustments into your year-end tax planning

The IRS recently issued its 2022 cost-of-living adjustments for more than 60 tax provisions. With inflation up significantly this year, mainly due to the COVID-19 pandemic, many amounts increased considerably over 2021 amounts. As you implement 2021 year-end tax planning strategies, be sure to take these 2022 adjustments into account.

Also, keep in mind that, under the Tax Cuts and Jobs Act (TCJA), annual inflation adjustments are calculated using the chained consumer price index (also known as C-CPI-U). This increases tax bracket thresholds, the standard deduction, certain exemptions and other figures at a slower rate than was the case with the consumer price index previously used, potentially pushing taxpayers into higher tax brackets and making various breaks worth less over time. The TCJA adopts the C-CPI-U on a permanent basis.



Individual income taxes

Tax-bracket thresholds increase for each filing status but, because they're based on percentages, they increase more significantly for the higher brackets. For example, the top of the 10% bracket increases by \$325 to \$650, depending on filing status, but the top of the 35% bracket increases by \$16,300 to \$19,550, again depending on filing status.

The TCJA suspended personal exemptions through 2025. However, it nearly doubled the standard deduction, indexed annually for inflation through 2025. For 2022, the standard deduction is \$25,900 (married couples filing jointly), \$19,400 (heads of households), and \$12,950 (singles and married couples filing separately). After 2025, standard deduction amounts are scheduled to drop back to the amounts under pre-TCJA law unless Congress extends the current rules or revises them.

Changes to the standard deduction could help some taxpayers make up for the loss of personal exemptions. But it might not help taxpayers who typically used to itemize deductions.

Individual income taxes (continued)

2022 ORDINARY-INCOME TAX BRACKETS				
Tax rate	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
10%	\$ 0 - \$ 10,275	\$ 0 - \$ 14,650	\$ 0 - \$ 20,550	\$ 0 - \$ 10,275
12%	\$ 10,276 - \$ 41,775	\$ 14,651 - \$ 55,900	\$ 20,501 - \$ 83,550	\$ 10,276 - \$ 41,775
22%	\$ 41,776 - \$ 89,075	\$ 55,901 - \$ 89,050	\$ 83,551 - \$178,150	\$ 41,776 - \$ 89,075
24%	\$ 89,076 - \$170,050	\$ 89,051 - \$170,050	\$178,151 - \$340,100	\$ 89,076 - \$170,050
32%	\$170,051 - \$215,950	\$170,051 - \$215,950	\$340,101 - \$431,900	\$170,051 - \$215,950
35%	\$215,951 - \$539,900	\$215,951 - \$539,900	\$431,901 - \$647,850	\$215,951 - \$323,925
37%	Over \$539,900	Over \$539,900	Over \$647,850	Over \$323,925

AMT

The alternative minimum tax (AMT) is a separate tax system that limits some deductions, doesn't permit others and treats certain income items differently. If your AMT liability is greater than your regular tax liability, you must pay the AMT.

Like the regular tax brackets, the AMT brackets are annually indexed for inflation. For 2022, the threshold for the 28% bracket increased by \$6,200 for all filing statuses except married filing separately, which increased by half that amount.

2022 AMT BRACKETS				
Tax rate	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
26%	\$0 - \$206,100	\$0 - \$206,100	\$0 - \$206,100	\$0 - \$103,050
28%	Over \$206,100	Over \$206,100	Over \$206,100	Over \$103,050

The AMT exemptions and exemption phaseouts are also indexed. The exemption amounts for 2022 are \$75,900 for singles and heads of households and \$118,100 for joint filers, increasing by \$2,300 and \$3,500, respectively, over 2021 amounts. The inflation-adjusted phaseout ranges for 2022 are \$539,900–\$843,500 (singles and heads of households) and \$1,079,800–\$1,552,200 (joint filers). Amounts for separate filers are half of those for joint filers.

Education and child-related breaks

The maximum benefits of certain education and child-related breaks generally remain the same for 2022. But most of these breaks are limited based on a taxpayer's modified adjusted gross income (MAGI). Taxpayers whose MAGIs are within an applicable phaseout range are eligible for a partial break — and breaks are eliminated for those whose MAGIs exceed the top of the range.

The MAGI phaseout ranges generally remain the same or increase modestly for 2022, depending on the break. For example:

The American Opportunity credit. For tax years beginning after December 31, 2020, the MAGI amount used by joint filers to determine the reduction in the American Opportunity credit isn't adjusted for inflation. The credit is phased out for taxpayers with MAGI in excess of \$80,000 (\$160,000 for joint returns). The maximum credit per eligible student is \$2,500.

The Lifetime Learning credit. For tax years beginning after December 31, 2020, the MAGI amount used by joint filers to determine the reduction in the Lifetime Learning credit isn't adjusted for inflation. The credit is phased out for taxpayers with MAGI in excess of \$80,000 (\$160,000 for joint returns). The maximum credit is \$2,000 per tax return.

The adoption credit. The phaseout ranges for eligible taxpayers adopting a child will also increase for 2022 — by \$6,750 to \$223,410–\$263,410 for joint, head-of-household and single filers. The maximum credit increases by \$450, to \$14,890 for 2022.

(Note: Married couples filing separately generally aren't eligible for these credits.)

These are only some of the education and child-related breaks that may benefit you. Keep in mind that, if your MAGI is too high for you to qualify for a break for your child's education, your child might be eligible to claim one on his or her tax return.

Gift and estate taxes

The unified gift and estate tax exemption and the generation-skipping transfer (GST) tax exemption are both adjusted annually for inflation. For 2022, the amount is \$12.060 million (up from \$11.70 million for 2021).

The annual gift tax exclusion increases by \$1,000 to \$16,000 for 2022.

Retirement plans

Not all of the retirement-plan-related limits increase for 2022. Thus, depending on the type of plan you have, you may have limited opportunities to increase your retirement savings if you've already been contributing the maximum amount allowed:

Retirement plans (continued)

TYPE OF LIMITATION	2021 LIMIT	2022 LIMIT
Elective deferrals to 401(k), 403(b), 457(b)(2) and 457(c)(1) plans	\$ 19,500	\$ 20,500
Annual benefit limit for defined benefit plans	\$230,000	\$245,000
Contributions to defined contribution plans	\$ 58,000	\$ 61,000
Contributions to SIMPLEs	\$ 13,500	\$ 14,000
Contributions to IRAs	\$ 6,000	\$ 6,000
“Catch-up” contributions to 401(k), 403(b), 457(b)(2) and 457(c)(1) plans for those age 50 and older	\$ 6,500	\$ 6,500
Catch-up contributions to SIMPLEs	\$ 3,000	\$ 3,000
Catch-up contributions to IRAs	\$ 1,000	\$ 1,000
Compensation for benefit purposes for qualified plans and SEPs	\$290,000	\$305,000
Minimum compensation for SEP coverage	\$ 650	\$ 650
Highly compensated employee threshold	\$130,000	\$135,000

Your MAGI may reduce or even eliminate your ability to take advantage of IRAs. Fortunately, IRA-related MAGI phaseout range limits all will increase for 2022:

Traditional IRAs. MAGI phaseout ranges apply to the deductibility of contributions if a taxpayer (or his or her spouse) participates in an employer-sponsored retirement plan:

- For married taxpayers filing jointly, the phaseout range is specific to each spouse based on whether he or she is a participant in an employer-sponsored plan:
 - For a spouse who participates, the 2022 phaseout range limits increase by \$4,000, to \$109,000–\$129,000.
 - For a spouse who doesn't participate, the 2022 phaseout range limits increase by \$6,000, to \$204,000–\$214,000.
- For single and head-of-household taxpayers participating in an employer-sponsored plan, the 2022 phaseout range limits increase by \$2,000, to \$68,000–\$78,000.

Taxpayers with MAGIs in the applicable range can deduct a partial contribution; those with MAGIs exceeding the applicable range can't deduct any IRA contribution.

But a taxpayer whose deduction is reduced or eliminated can make nondeductible traditional IRA contributions. The \$6,000 contribution limit (plus \$1,000 catch-up if applicable and reduced by any Roth IRA contributions) still applies. Nondeductible traditional IRA contributions may be beneficial if your MAGI is also too high for you to contribute (or fully contribute) to a Roth IRA.

Roth IRAs. Whether you participate in an employer-sponsored plan doesn't affect your ability to contribute to a Roth IRA, but MAGI limits may reduce or eliminate your ability to contribute:

- For married taxpayers filing jointly, the 2022 phaseout range limits increase by \$6,000, to \$204,000–\$214,000.
- For single and head-of-household taxpayers, the 2022 phaseout range limits increase by \$4,000, to \$129,000–\$144,000.

You can make a partial contribution if your MAGI falls within the applicable range, but no contribution if it exceeds the top of the range.

(Note: Married taxpayers filing separately are subject to much lower phaseout ranges for both traditional and Roth IRAs.)

2022 cost-of-living adjustments and tax planning

With many of the 2022 cost-of-living adjustment amounts trending higher, you have an opportunity to realize some tax relief next year. In addition, with certain retirement-plan-related limits also increasing, you have the chance to boost your retirement savings. If you have questions on the best tax-saving strategies to implement based on the 2022 numbers, please [contact us](#). We'd be happy to help.

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