2022 YEAR-END TAX INSIGHTS AND PLANNING FOR INDIVIDUALS AND BUSINESSES

Seigneur Gustafson LLP would like to thank you for trusting us with your tax and consulting needs. First and foremost, we want to wish you and yours a happy holiday season and convey our best wishes for a happy, safe and prosperous new year.

The current state of Inflation, interest rates and continuing market volatility makes tax planning as essential as ever for taxpayers looking to manage cash flow while paying the least amount of taxes possible over time. As we approach the end of the year, now is the time for individuals and business owners to review their 2022 and 2023 tax situations to identify potential opportunities to realize tax efficiency.

The information contained within this planning letter is based on federal laws and policies in effect as of the publication date. We encourage you to consult with us when making tax and financial decisions regarding any of the items on the following pages.

INDIVIDUALS

The following provides an overview of the individual tax provisions that may impact your tax situation as we move into the tax year 2023.

2022 Individual Income Tax Rates:

TAX RATE	FILING JOINTLY/ SURVIVING SPOUSE	SINGLE	HEAD OF HOUSEHOLD	MARRIED, FILING SEPARATELY	ESTATE & TRUSTS
10%	$0 to $20,550	$0 to $10,275	$0 to $14,650	$0 to $10,275	$0 to $2,750
12%	$20,551 to $83,550	$10,276 to $41,775	$14,651 to $55,900	$10,276 to $41,775	–
22%	$83,551 to $178,150	$41,776 to $89,075	$55,901 to $89,050	$41,776 to $89,075	–
24%	$178,151 to $340,100	$89,076 to $170,050	$89,051 to $170,050	$89,076 to $170,050	$2,751 to $9,850
32%	$340,101 to $431,900	$170,051 to $215,950	$170,051 to $215,950	$170,051 to $215,950	–
35%	$431,901 to $647,850	$215,951 to $539,900	$215,951 to $539,900	$215,951 to $323,925	$9,851 to $13,450
37%	More than $647,850	More than $539,900	More than $539,900	More than $323,925	More than $13,450

CAPITAL GAIN & QUALIFIED DIVIDEND TAX RATES

The long-term capital gain and qualified dividend tax rates remain unchanged in 2022, however, the income limits for each bracket were inflation adjusted. The brackets remain at 0 percent, 15 percent, and 20 percent. Short-term capital gains are taxed at ordinary income tax rates. One method often used to reduce capital gains is to "harvest" investment losses at the end of the year. In other words, selling investments that are underperforming or losing money. We recommend consulting with your investment advisors prior to selling investments at a loss to ensure the sales are in line with your financial goals and make sense from an economic standpoint.

2022 Capital Gains Rates

FILING STATUS	0%	15% min. income	20% min. income
Single	$0 to $41,675	$41,676 to $495,750	$459,751 or more
Married Filing Jointly	$0 to $83,350	$83,351 to $517,200	$517,201 or more
Head of Household	$0 to $55,800	$55,801 to $488,500	$488,501 or more

NET INVESTMENT INCOME TAX

Individuals whose income is above certain thresholds are still subject to an additional 3.8% net investment income tax (NIIT) on their net investment income. Net investment income includes interest, dividends, capital gains, rental income (unless derived from business activities) and passive activities, less deductions properly allocated to net investment income.

DEDUCTIONS

Many taxpayers find themselves claiming the standard deduction instead of itemized deductions after the standard deduction was increased by the Tax Cuts and Jobs Act of 2017. However, itemizing deductions may still make sense for some taxpayers who have a home mortgage, large medical bills, large charitable donations, and/or have high property or state income taxes.

2022 Filing Status	2022 Standard Deduction	
Married Filing Jointly	$	25,900
Single	$	12,950
Head of Household	$	19,400
Married filing Separately	$	12,950

IRA DEDUCTION LIMITS

Taxpayers that make a contribution to a Traditional Individual Retirement Account (IRA) may be entitled to a deduction for the amount of the contribution. The maximum contribution is $6,000 in 2022, $7,000 if you're over 50. If the taxpayer is covered by a workplace retirement plan, the deduction is subject to income limitations. For the 2022 tax year, the income phase-out range for single filers is between $68,000 and $78,000. For married couples filing jointly, the income phase-out range is between $109,000 and $129,000. The deadline to contribute to your IRA is April 17, 2023.

If you file a joint return, you may be able to contribute to an IRA even if you didn't have taxable compensation as long as your spouse did. Each spouse can make a contribution up to the current limit; however, the total of your combined contributions can't be more than the taxable earned income reported on your joint return.

ROTH IRA CONTRIBUTION LIMITS

Taxpayers may make Roth IRA Contributions if their income falls between or below the income phase-out limitations. For the 2022 calendar year, the income phase-out range is between $129,000 and $144,000 for single filers and heads of household and between $204,000 and $214,000 for married taxpayers filing jointly.

If 2022 is a down income year, taxpayers may want to consider converting some amount from their traditional IRA accounts into Roth Accounts.

PAYMENTS FROM THIRD PARTY NETWORKS

Taxpayers may receive a form 1099-K, Payment Card and Third-Party Network Transactions, by January 31, 2023, if they received third party payments in tax year 2022 for goods and services that exceeded $600. This would include payments made through apps like Venmo, PayPal, Square and Cash App.

Personal transactions (personal payments from friends and family) are not considered payments for goods and services and should not be reported on form 1099-K.

CHANGES TO CERTAIN TAX CREDITS

Certain affected taxpayers will receive a smaller refund compared to the previous tax year due to changes in the amounts for the Child Tax Credit (CTC), Earned Income Tax Credit (EITC) and Child and Dependent Care Credit.

- Those who got $3,600 per dependent in 2021 for the CTC will, if eligible, get $2,000 for the 2022 tax year.
- For the EITC, eligible taxpayers with no children who received roughly $1,500 in 2021 will now get $500 in 2022.
- The Child and Dependent Care Credit returns to a maximum of $2,100 in 2022 instead of $8,000 in 2021.

NO ABOVE-THE-LINE CHARITABLE DEDUCTIONS.

During the COVID pandemic, taxpayers could take up to a $600 charitable donation tax deduction on their tax returns, even if they didn't itemize their deductions. However, in 2022, those who take a standard deduction may not take an above-the-line deduction for charitable donations. In addition, the 100 percent AGI limitation for contributions to qualifying charitable organizations has reverted back to 60 percent for 2022.

ESTIMATED TAX PAYMENTS

The last quarterly payment for 2022 is due on January 17, 2023. Taxpayers may need to consider estimated or additional tax payments due to non-wage income from unemployment, self-employment, annuity income or even digital assets. The Tax Withholding Estimator on IRS.gov can help wage earners determine if there is a need to consider an additional tax payment to avoid an unexpected tax bill when they file.

SIGN UP FOR AN IRS ONLINE ACCOUNT

We highly recommend taxpayers consider signing up for an IRS Online Account. This allows taxpayers to securely access their personal tax information, including tax return transcripts, payment history, certain notices, prior year adjusted gross income and power of attorney information. Filers can log in to verify if their name and address are correct. They should notify IRS if their address has changed. They must notify the Social Security Administration of a legal name change to avoid a delay in processing their tax return. To sign up, go to:

https://www.irs.gov/payments/your-online-account

For a Colorado Account, go to:

https://www.colorado.gov/revenueonline

BUSINESSES

While Congress did not pass many new provisions impacting 2022 or 2023, there are still many changes from past legislation that have become effective in the current and upcoming tax years. The following sections provide an overview of some of the changes made and other business planning opportunities that may impact your 2022 and 2023 tax situation.

EMPLOYEE RETENTION TAX CREDIT

The Employee Retention Tax Credit (ERTC) was originally enacted as part of the CARES Act in March of 2020. It was introduced to encourage employers to retain employees during the pandemic. Eligible employers could claim a refundable ERTC against the employer's share of employment taxes equal to 50 percent of the qualified wages of up to $10,000 paid per employee per calendar quarter after March 12, 2020 and before January 1, 2021.

The ERTC was subsequently extended to quarters starting after December 31, 2020 and before October 1, 2021, and the amount of the credit limitation was increased to 70 percent of wages, up to $10,000 per employee per quarter (i.e., a maximum of $7,000 per employee per quarter).

While the qualifying period for the credit has passed, taxpayers are still able to retroactively claim the credit by filing amended payroll tax returns. Taxpayers should be aware that ERTC claims could be audited as the IRS has announced increased enforcement in this area because of potential abuse. In addition, businesses will probably be required to amend prior year tax returns to reflect the credit in the appropriate year.

SIMPLIFIED EMPLOYEE PENSION (SEP)

Generally, small businesses can contribute the lesser of (1) 25 percent of employees' salaries or (2) an annual maximum of $61,000 for 2022 to a SEP plan by the extended due date of the employer's federal income tax return for the year the contribution is being made. The annual maximum for 2023 is increased to $66,000. For self-employed individuals, the 25 percent limit is calculated based on self-employment income net of the self-employment tax.

SECTION 179 & DEPRECIATION EXPENSE

The Section 179 deduction limitation increased to $1,080,000 for the 2022 tax year. The deduction phase-out begins once the amount of Section 179 property placed in service during the tax year exceeds $2,700,000. Generally, property that can be expensed via the Section 179 deduction includes new or used machinery and equipment. It also includes off-the-shelf software, qualified improvements to building interiors, roofs, HVAC systems, fire protection systems, alarm systems, and security systems.

In addition to Section 179, the 100 percent first-year bonus depreciation deduction is still in place for 2022. For 2023, the bonus depreciation deduction phases down to 80 percent, and continues to phase down in 20 percent increments in later tax years. The property that qualifies for this special deduction is tangible property depreciated under MACRS with a recovery period of 20 years or less, most computer software, qualified film, television, and live theatrical productions, and water utility property. This qualified property can also be new or used if it is acquired from an unrelated party.

MEALS & ENTERTAINMENT

While the Tax Cuts and Jobs Act of 2017 brought major changes to deductions for meals and entertainment, late 2020 tax provisions provided some exceptions with hopes of boosting business for restaurants. One exception impacting the 2022 tax year is the ability for taxpayers to deduct 100 percent of food and beverages purchased from a restaurant. The following chart provides a brief overview of some of the current meal limitations.

TYPE OF EXPENSE	CURRENT LAW
Business meals with clients, prospects and referral sources	100%
Events and meals at social or golf clubs	100%
Membership dues for social clubs	No Deduction
Tickets to sporting or theater events	No Deduction
Business gifts	$25 per person

QUALIFIED BUSINESS INCOME DEDUCTION

The qualified business income deduction (QBID) is a deduction for individual taxpayers, including trusts and estates, who operate a qualified trade or business as a sole proprietorship, partnership, or S corporation. The amount of the deduction is up to 20 percent of the income and gain, reduced by deductions and losses, of a qualified trade or business that is effectively connected with the conduct of a trade or business in the United States. The deduction is subject to phase-out limitations if the trade or business is considered a specified service business. For 2022, the phase-out begins when taxable income reaches $340,100 for married taxpayers filing jointly, or $170,050 for single taxpayers or heads of households.

RESEARCH & DEVELOPMENT EXPENDITURES

Pending potential legislation, research and development (R&D) expenditures incurred or paid in the 2022 tax year will be required to be capitalized and amortized over a five-year period (domestic expenditures) or a 15-year period (foreign expenditures).

This mandatory capitalization requirement also applies to internally developed software and website development costs. Amortization will be required even if the R&D projects are abandoned, retired, or disposed of prior to the end of the amortization period.

QUALIFIED OPPORTUNITY ZONES

Qualified Opportunity Zones (QOZ) allow taxpayers to invest in a Qualified Opportunity Fund (QOF) as a mechanism for capital gain deferral. Taxpayers are permitted to invest capital gains in QOFs, allowing for capital gain deferral until 2026 so long as those gains are invested in a QOF within 180 days of gain recognition and the QOF invests 90 percent of its capital in a QOZ property. Another significant benefit to QOZ fund investments is available when the taxpayers hold the fund for at least 10 years. Then the taxpayers are only responsible for tax on the original deferred gain, but gains in excess of the original investment are not taxed.

All qualifying zones have been certified, and Treasury has released several rounds of regulations regarding the mechanics of how QOF works. Taxpayers also can take advantage of similar tax benefits at the state level depending on the state and where and how the investments are made. The rules surrounding QOZs are complex, and if you are thinking about investing in an opportunity zone, please contact your HBK Advisor.

1031 LIKE-KIND EXCHANGES

Like-kind exchanges provide a way to defer paying taxes on gains from the disposal of investment or business assets. Instead of selling the appreciated real property, it can be exchanged for similar, "like-kind" property. Under the current tax law, like-kind exchanges are only allowed for real property. A qualifying like-kind exchange requires that a taxpayer identify both the relinquished property that is exchanged as well as the replacement property acquired in the exchange. The rules for like-kind exchanges have specific timing requirements to ensure all aspects of the exchange have been carried out within the prescribed timeline. Additionally, these exchanges must be done properly and with the correct property types to receive tax benefits. If you are interested in taking advantage of the benefits available under the like-kind exchange provisions, please reach out to your HBK tax advisor.

REMOTE WORKFORCE IMPLICATIONS

The COVID-19 pandemic had a significant impact on the way employers conduct business with many employers expanding their reach to include a mobile workforce. Most states that previously granted temporary nexus and/or withholding relief related to remote/teleworking employees during the COVID-19 pandemic lifted their relief orders during the 2021 tax year. It is, therefore, vital that any employer with remote employees consider the state and local tax impacts of those remote employees going forward.

PLANNING OPPORTUNITIES FOR BUSINESSES

- Deferring income: Taxpayers under the cash method may be able to defer income by billing and collecting revenue after year-end. Accrual-method taxpayers can delay shipping products or performing services until after year-end.
- Accelerating expenses: Cash-basis taxpayers can prepay certain expenses before year-end.
- Utilizing the home office deduction: Provided you use at least part of your home regularly and exclusively as your principal place of business or as a place to meet or deal with customers, clients or patients in the normal course of business, you can either deduct a portion of eligible expenses based on the relative square footage of the home or use a simplified method of $1,500 ($5/square foot up to 300 square feet).
- Businesses should take advantage of the favorable 100% bonus depreciation deduction available for qualified assets placed in service before December 31, 2022. Bonus depreciation applies to new and used property used in a business. Under current tax law, the percentage will decrease from 100% to 80% in 2023 and gradually taper off until it phases out completely in 2027.
- Set up or contribute to a retirement plan to reduce your taxable income. Consider the following:
    - A 401(k) plan must be set up before December 31, 2022. This year the total employee and employer contributions are limited to $61,000 or the employee's compensation, whichever is less.

- If you miss the cutoff date to set up a 401(k) plan in 2022, you may still be able to set up a simplified employee pension plan (SEP). You have until the due date of your return (including extensions) to set up a SEP. In 2022, the employer's contribution to a SEP is limited to 25% of the employee's compensation or $61,000, whichever is less.

ESTATE & GIFT TAXES

The gift tax annual exclusion is $16,000 for gifts made in 2022 and will increase to $17,000 in 2023. The unified estate and gift tax exemption and generation-skipping transfer tax exemption is $12,060,000 per person, which is going to increase to $12,920,000 for 2023. All outright gifts to a spouse who is a U.S. citizen are free of federal gift tax.

The current estate and gift tax exemption law sunsets in 2025, and the exemption amount will drop back down to the prior law's $5 million cap, which when adjusted for inflation is expected to be about $6.2 million.

TAX YEAR 2022 FILING DEADLINES

TYPE OF RETURN	FILING DEADLINE
Partnerships (Form 1065) & S Corporations (Form 1120S)	March 15, 2023
Individuals (Form 1040)	April 17, 2023
C Corporations (Form 1120)	April 17, 2023
Foreign Bank and Financial Reporting Form (FBAR) FinCEN Report 114	April 17, 2023
Trusts and Estates (form 1041)	April 17, 2023
Gift Tax Returns (Form 709)	April 17, 2023
Tax-Exempt Nonprofit Organizations (Form 990)	May 15, 2023
Employee pension plan returns (Form 5500)	July 31, 2023
Extended due date for Partnerships & S Corporations	September 15, 2023
Extended due date for Trusts & Estates	September 30, 2023
Extended due date for Individuals, Gift Tax Returns, Foreign Financial Reporting	October 17, 2023
Extended due date for C Corporations	October 17, 2023
Extended due date for Tax-Exempt Nonprofit Organizations	November 15, 2023
Estate Tax (Form 706)	9 months after the date of death