The elections are behind us and we just need to finish counting to see exactly where things landed. Point of clarity, we are referring to the 2022 elections. Our annual tax planning letter will focus on the following topics:

- Elements of the Inflation Reduction Act which might impact our clients,
- General year-end tax planning considerations,
- Planning within a down market; and
- Lifetime gift estate planning considerations

The Inflation Reduction Act

The Inflation Reduction Act of 2022 was signed into law by President Biden on August 16th, 2022. The goal of this law was to invest in climate infrastructure, lower prescription drug costs, create manufacturing jobs and invest in disadvantaged communities. The Act attempts to accomplish this all without increasing the tax burden for families making less than $400k. The funding was to come from increased IRS enforcement (gulp) and an increased tax on some large corporations. Below is a summary of the provisions that are most relevant for individual's tax planning.

Environment Provisions of the Act

The Act extends and expands several Tax Code provisions related to green energy that were set to expire or were being phased out.

- Plug-in Electric Vehicle Credit. The Plug-in Electric Vehicle Credit, renamed the Clean Vehicle Credit, contains several new requirements effective starting in 2023 or later. One new provision starting August 16, 2022, requires the vehicle be assembled in North America. However, there is also a transition provision that a vehicle purchased or subject to a "binding written contract" entered into before August 16, 2022, may be treated as placed in service on August 15, 2022, even though it was actually placed in service on or after August 16, 2022. This is particularly relevant in the current car market where deliveries are delayed months or even years. The incentive allows taxpayers a credit worth up to: (1) $7,500 for the purchase of new qualified commercial clean vehicles, and (2) the lesser of 30% of the price of used electric vehicles or, $4,000. Starting in 2023 there is a phase out of credit based on income levels…

- The newly renamed Residential Clean Energy Credit, the incentive for solar and wind installations, had been scheduled to phase-down to 26 percent for 2022. It has now been restored to 30% for 2022, with the 30% credit extending from 2023 through 2032, after which a phase-down starts again. One additional change for 2022 and beyond is that the credit is no longer available for biomass furnaces and water heaters. Starting in 2023, this credit will also apply to battery storage technology with a capacity of at least 3 kilowatt hours.

- The newly renamed Energy Efficient Home Improvement Credit has been extended beyond 2022. For instance, a onetime $500 credit will be available through 12/31/2022. From 2023 through 2032 the new requirements and enhancements will take effect. Most notably, the prior $500 *onetime* credit is being replaced with a $1,200 per year credit. This leaves a $500 lifetime credit available for 2022 for taxpayers who had not already used up that credit. Lesser annual limits are placed on specific types of improvements such as exterior doors ($250 per door, $500 total), exterior windows ($600), and heat pumps ($2,000, not limited by the $1,200 annual limit). Certain biomass furnaces and water heaters will qualify for the incentive, but no credit will be available for roof improvements. Please note, for the 2022 tax year, the pre-Inflation Reduction Act rules apply for this credit.

2022 Tax Brackets, Retirement Limits, & Annual Gift Exclusion

The 2022 and 2023 tax brackets have been updated and are provided as an attachment to this newsletter. We have also provided updated retirement contribution limits and the updated annual gift exclusion for both 2022 & 2023. For the first time since 2019, the retirement limits are increased in the 2023 tax year in response to recent high levels of inflation.

Year-End Tax Planning

As we approach the end of the year, here are some areas that should be reviewed:

- **Taxes Withheld/Estimated vs. Balance Due for 2022:** First and foremost, it is important to make sure that there have been ample taxes paid or withheld during 2022 to avoid any underpayment penalties. We refer you to the Tax Services page of our website (https://www.ffgwealth.com/tax-services/) to review the rules regarding estimated payment requirements. If you have concerns about exposure to underpayment penalties for 2022, we are available to prepare tax projections before year-end. We will need recent pay-tubs and realized income and gain/loss details on taxable brokerage accounts. We will also need background on any new or significantly different earnings sources in 2022 as compared to your 2021 tax return. For instance, if you invested in treasury bonds during 2022 at what are now significantly higher rates, we will likely have to fold in much higher interest income estimates for the 2022 year-end projection.

- **Fixed Income Investment Planning**: With the rise of interest rates, we are building up the fixed income holdings for those clients where we manage their portfolios. As these portfolios are being built, it is important to keep in mind that different bond types carry different tax treatment. For instance, interest earned on most money market funds, CDs and corporate bonds are fully taxable at ordinary rates to both Fed and state. US Treasury notes and bills, and the increasing popular Treasury iBonds, are taxable to the Fed but tax free to the state. Meanwhile Municipal bonds are tax free for federal purposes and also tax free for state purposes if the bonds are from your state of residence. It's for this reason, why "tax equivalent" returns for "in-state" municipal bonds become more attractive for taxpayers with higher combined FED/State/Local rates.

  Here is a table of the tax treatment of various fixed income instruments:

Fixed Income Instrument	Federal	State
CDs/Corporate Bonds	Taxable	Taxable
Treasury Bills/Bonds/Notes	Taxable	Not Taxable
Munis - Out of State	Not Taxable	Taxable
Munis - In State	Not Taxable	Not Taxable

- **Donor Advised Funds (DAF)**: We continue to favor setting up these accounts to manage almost all charitable giving for these reasons: (1) Funding a DAF with appreciated stock provides "tax-leveraged" charitable giving, (2) DAFs allow one to target the year of deduction when there is a max tax benefit, while retaining the timing control over ultimate distributions to charities, and (3) DAFs help organize charitable giving so deductions don't fall through the cracks and go unreported.

- **Required Minimum Distributions (RMDs)**: For those of you over the age of 72, you should look to see if you have made the required distributions from various retirement accounts. The rules regarding RMDs are everchanging and should be looked at to see if it is required in your case. If you are subject to RMDs, you may want to consider directing some or all of the RMD directly to charities. This can help with both the income tax computation and also the determination of Medicare premiums you are required to pay since these distributions to charity are kept off the total income.

Dealing with a Market Downturn

After a historic bull market that we've all enjoyed since the Great Recession, the investment climate has shifted considerably this year. Nearly all investment assets have experienced double digit losses in 2022. Even "balanced" portfolios have lost money. As reported recently in the WSJ, a portfolio with 60% of its money invested in U.S. stocks and 40% invested in the 10-year U.S. Treasury note has lost 15% this year. That puts the 60-40 investment mix on track for its worst year since 1937.

While investment losses are difficult to bear both financially and emotionally, there are tax planning opportunities that should be considered.

- **Tax Loss Harvesting:** When executed properly, swapping out of investments which are in a loss position into similar, but not "substantially identical" positions, can help investors reduce their future capital gains without dismantling the composition of their portfolio or investment strategy. While most years present an opportunity to harvest at least some losses in various stock investments, unique to 2022 is the opportunity to harvest losses in bonds which are experiencing their worst performance year since the Great Depression by a factor of over 200%. FFG clients' bond losses have been mitigated using high credit quality and short-duration issues, but even so, we are taking this opportunity to tax loss harvest many of our bond ETF holdings. Due to the complex "Wash Sale" rules, we recommend discussing this strategy with our financial professionals to ensure these losses will be allowed for income tax purposes.

- **Roth IRA Conversions**: As things stand for 2022, there remains the ability to convert all or part of an existing IRA to a Roth IRA. The amount converted would need to be recognized as income in the year of conversion. However, once in a Roth IRA, there are no more taxes to be paid on these funds, including the earnings that accumulate. Additionally, Roth IRAs are not subject to lifetime required minimum distributions (RMDs). This conversion can make sense under certain fact patterns. Typically, we like this strategy for clients who are expecting 2022 to be a low-income year who also have the resources to pay the tax on conversion from liquid bank accounts or non-retirement brokerage accounts if they are not yet 59 ½.

- **529 Accounts**: Parents and grandparents should consider maximizing contributions to these accounts each year until the needed college funding is achieved. These accounts can be better than tax-deferred retirement accounts since income earned in these accounts is completely tax-free if ultimately used on "qualified education expenses". Any funds not needed for the education of the original beneficiary can be transferred to another 529 beneficiary, including future generations within the family which can create a completely legitimate multi-decade tax sheltered investment vehicle. All else equal, we feel that investing in 529 accounts while stocks indexes are down 20-40% and bond indexes are down over 10% is a smart strategy as recoveries in these markets, which are likely to occur, may be enjoyed tax-free.

- **Incentive Stock Options**: For those with employer-granted Incentive Stock Options (ISOs), before year-end you should consider exercising a portion of those ISOs up to the point where your Alternative Minimum Tax (AMT) equals your regular tax if the following below are true. Further exercises of ISOs should also be considered in January of 2023 as any AMT liability incurred on those transactions will likely be deferrable until April of 2024. When considering exercises, it's also important to ask yourself:

    - Do I have strong conviction in the growth prospects of my employer?
    - Does my income and savings afford me the ability to cover the exercise cost of these options without jeopardizing cash reserves or forcing me to take on new debt?

Estate and Wealth Transfer Planning

When the Tax Cuts and Jobs Act was signed in December 2017, the estate tax exemption was increased to a bit over $11 Million. It has further increased by inflation adjustments since then. As part of that Act however, the increased exemption is set to "sunset" in 2026. This means the exemption reverts to the prior exemption amount of $5.0M. Note this amount is indexed by inflation, so it would be higher than $5.0M assuming the higher exemption limit sunsets.

It is unclear what changes in the estate tax law may happen between now and then. Some believe that due to the dysfunction in Congress, it may simply run its course and sunset back to the lower exemption. That would occur approximately three years from now. The estate tax rate is currently 40% meaning that the value of assets over the exemption amount would be subject to a 40% tax rate.

As 2026 approaches, we believe there will be a growing focus on estate planning considerations. Estate planning can take the form of some very simple steps or can involve some extremely complex planning. FFG Law, A Professional Corporation is available to engage in discussions anywhere along this spectrum.

At the very least, for those clients with large estates, we recommend they take advantage of the annual exclusion to transfer assets out of one's estate on a regular/annual basis. This removes both the assets gifted and future appreciation on those assets from being subject to estate tax. These gifts can go directly to a beneficiary or alternatively to:

- **529 Accounts (as reviewed above).** The benefits here are that the beneficiary does not control the assets and the donor can adjust who the beneficiary is or can even reclaim the assets. Further the donor can combine five years of exclusion for a one time gift. Many are considering this feature in light of the market downturn. There is an impact to future student aid applications that should be considered.

- **UGMA/UTMA Account.** These are simple accounts to set up in the child's name. The funds should be invested in a way to avoid the Kiddie Tax. The downside is that there is a set age 18, 21 or 25 where the funds will pass unrestricted to the beneficiary. These accounts may also adversely impact eligibility for future Federal student loans/aid.

- **Annual Gift Trusts:** For this type of trust, you can designate any future age for the beneficiary to receive the funds. You can also control how the funds can be used in the future. They are simple to set up, but if the income exceeds a certain dollar amount there is a separate tax return required.

This memo is not intended to be comprehensive. Rather, we issue it to provide an overview of a variety of tax planning considerations. We stand ready to answer any questions and discuss how these items may apply to your particular situation.

/s/

Cooper & Vogelheim, LLP | Fiduciary Financial Group

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2022 Tax Brackets

Single Filers	
Tax Rate	**Taxable Income**
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%	Over $539,900

Married Filing Joint Filers	
Tax Rate	**Taxable Income**
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%	Over $647,850

2023 Tax Brackets

Single Filers	
Tax Rate	**Taxable Income**
10%	$0 - $11,000
12%	$11,001 - $44,725
22%	$44,726 - $95,375
24%	$95,376 - $182,100
32%	$182,101 - $231,250
35%	$231,251 - $578,125
37%	Over $578,125

Married Filing Joint Filers	
Tax Rate	**Taxable Income**
10%	$0 - $22,000
12%	$22,001 - $89,450
22%	$89,451 - $190,750
24%	$190,751 - $364,200
32%	$364,201 - $462,500
35%	$462,501 - $693,750
37%	Over $693,750

2022 IRA / 401(k) & Gifting Limits

	Traditional IRA	**Roth IRA**	**401(k) Deferral**	**Annual Gift Exclusion**
Regular 2022 Contribution Limit	$6,000	$6,000	$20,500	$16,000
2022 Catch-up Contribution *(if age 50 or older)*	+$1,000 *(Total of $7,000)*	+$1,000 *(Total of $7,000)*	$6,500 *(Total of $27,000)*	

2023 IRA / 401(k) & Gifting Limits

	Traditional IRA	**Roth IRA**	**401(k) Deferral**	**Annual Gift Exclusion**
Regular 2023 Contribution Limit	$6,500	$6,500	$22,500	$17,000
2023 Catch-up Contribution *(if age 50 or older)*	+$1,000 *(Total of $7,500)*	+$1,000 *(Total of $7,500)*	$7,500 *(Total of $30,000)*	