

While Tax Laws Haven't Changed Much, You Can Still Reduce Your Burden

Year-End Planning Tips

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For better or worse, we saw very few changes to our tax laws in 2022. Thus, the majority of tax planning opportunities available to you as we end the year are tried-and-true strategies. Nevertheless, we thought it would be good to highlight some of the areas where you can meaningfully reduce your tax burden before year-end.

Understanding Marginal Tax Rates

At right you can see the tax schedule for 2022. If you're married filing a joint return, and you estimate your taxable income after all deductions is \$80,000, your federal income tax will be \$9,189 (\$2,055 + 12% of \$59,450 = \$7,134). If your income goes over \$83,550 (but is less than \$178,150), any of this additional income will be taxed at 22%. So your goal would be to figure out how to stay in the 12% bracket.

Long- and Short-Term Capital Gains Tax Rates

Long-term capital gains on securities (those held for more than one year) are currently taxed at a lower rate of between 0% and 20%.

Taxpayers who make less than \$41,675 (single) or \$83,350 (married filing joint) will not be taxed on their long-term gains. Filers with income above those thresholds, but below \$459,750 (single) or \$517,200 (married, filing joint) will pay 15% on long-term capital gains.

In addition, there is a separate Medicare surtax of 3.8% on net investment income (income received from investment assets) applied using a third set of income thresholds. Single taxpayers who make over \$200,000 and married couples who make more than \$250,000 will be subject to this 3.8% surtax on net investment income, in addition to the capital gains tax noted above. If you are close to this threshold it pays to do what you can to avoid the surtax.

Gains from the sale of short-term holdings (those owned for one year or less) will be taxed as ordinary income — at a federal rate as high as 37% depending on your other sources of income.

If your overall capital losses exceed your capital gains, you can deduct up to \$3,000 of that excess loss each year from ordinary income. Unused capital losses above that can be carried forward indefinitely to be used in future years.

This year was a difficult one in the markets and as a result you may have investments that are currently showing a loss. If so, you may consider selling the shares to realize the loss and reduce your taxes. If you believe the holding is still a good long-term investment, there are a couple strategies you can use to capture the loss and ultimately remain invested.



Federal Income Tax Rates (Based on Household Income)

Single	Pay	Plus	Of the Amount Over
Up to \$10,275	\$ 0	10%	\$ 0
10,276 – 41,775	1,027.50	12	10,275
41,776 – 89,075	4,807.50	22	41,775
89,076 – 170,050	15,213.50	24	89,075
170,051 – 215,950	34,647.50	32	170,050
215,951 – 539,900	49,335.50	35	215,950
539,901 and up	162,718.00	37	539,900

Married, Filing Jointly	Pay	Plus	Of the Amount Over
Up to \$20,550	\$ 0	10%	\$ 0
20,551 – 83,550	2,055	12	20,550
83,551 – 178,150	9,615	22	83,550
178,151 – 340,100	30,427	24	178,150
340,101 – 431,900	69,295	32	340,100
431,901 – 647,850	98,671	35	431,900
647,851 and up	174,253.50	37	647,850

Capital Gains Tax Rate

Single	Married, Filing Jointly	Capital Gains Tax Rate
Up to \$41,675	Up to \$83,350	0%
41,676 – 459,750	83,351 – 517,200	15
Over 459,751	Over 517,201	20

First, you can sell the stock for a loss and repurchase it in 31 days (the Internal Revenue Service requires you to wait 30 days to do so to avoid erasing the tax loss, the so-called “wash rule”).

However you may be concerned about the stock moving up during the 30-day waiting period. One way to mitigate this risk is to double up on your position, wait 30 days and then sell the top-costing shares assuming they're still at a loss. You need to make the purchase before the end of November, in order to wait the 31 days and still take the loss in the 2022 tax year.

Another approach is to invest the proceeds from the

sale into a similar security within the same asset class of the one you sold. After 31 days you then sell the placeholder investment and repurchase your original holding.

Charitable Contribution Deductions

Whether you contribute cash, stock or other assets, it's important to adhere to the year-end deadlines for 2022 charitable contributions. First, in order to get tax benefits for charitable contributions you generally must itemize deductions.

If you donate cash to a charitable organization, you can deduct your donation in 2022 as long as you mail your check by Dec. 31. This is true even if the organization doesn't cash your check until 2023. If you charge your donation to your credit card, your donation is treated as occurring on the date the charge occurs.

If you donate stock or other securities by mailing certificates, the date of mailing is the date of the donation. If you have the shares donated electronically, the date your brokerage statement shows it leaving the account is the date of the gift. The value of your donation equals the average of the highest and lowest selling prices on that date.

Donations of clothing, household items and other goods can be deducted based on the fair market value of the goods. We recommend you make an itemized list and take pictures of your donated items in case your tax return is audited. We also suggest you "low ball" your estimates to be on the safe side.

For 2022, the deduction for charitable cash contributions is limited to 60% of your adjusted gross income (AGI). For non-cash contributions, the deduction is limited to 30% of AGI. Contribution amounts over those limits can be carried forward for up to five years. Note that this is a return

to pre-2020 rules, after these limits were temporarily removed to encourage giving during the height of the pandemic.

Consider a Qualified Charitable Distribution

If you're over age 70.5, you have the ability to contribute directly to a charity using a distribution from your IRA



account, better known as a qualified charitable deduction (QCD). For those over age 72, this distribution counts towards satisfying your required minimum distribution (RMD), but it does not count as taxable income. This is particularly powerful for those who don't itemize deductions on their returns and wouldn't be able to claim a deduction for their charitable gifts. The QCD allows you to give to charity, satisfy your RMD and reduce your taxable income.

Contribute the Maximum You Can to a Qualified Retirement Plan

In 2022, you can contribute the lower of \$20,500 or whatever you earned to your 401(k) or 403(b) plan. If you're age 50 or older, you can add another \$6,500 to that number. Contributing the maximum lowers your taxable income and the money in the 401(k) compounds tax-deferred. These contributions must be made in the form of payroll deductions before year-end.

If your AGI is below \$109,000 as a married person filing jointly or \$68,000 as a single/head of house-

hold, you also can make a tax-deductible contribution of \$6,000 (or \$7,000 if you are age 50 or older) to an individual retirement account, even if you are covered by a 401(k) plan at work.

Contributions to an IRA for 2022 can be made any time before the normal filing deadline of April 15, 2023, or when you file your 2022 tax return on extension, whichever date comes first. This is one area where you have time after year-end to make a decision.

Deadlines are Different For Those With Self-Employment Income

While IRA contributions must be made by April 15, that is not true for those with SEP IRAs, SIMPLE IRAs or solo 401(k) plans.

The deadline for those plans is the date that you file your taxes. Thus if you file for an extension, you have until Oct. 15 to make your contribution.

If you have self-employment income and have not established a solo 401(k) plan, consider doing so. While the deadline to make a contribution isn't until your tax filing date, the plan itself must be established before year-end. Solo 401(k) plans offer higher contribution limits than SEP IRAs, and may be a better choice if you have excess income you'd like to shelter from tax.

Few Changes to Tax Law Made in 2022

While there were several tax changes proposed over the last year, when the Inflation Reduction Act finally was passed in late summer it contained almost no meaningful changes for individual taxpayers.

One notable win for investors was the continued survival of the "backdoor Roth" strategy.

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average yield, like Altria's (MO) dividend that pays 8.44%. Others lag, like Tootsie Roll Industries (TR), which pays just 1.03%.

Beyond the Aristocrats and Kings, investors can turn to companies that still manage to pay substantial yields without having increased their dividends consecutively for years.

Business development companies (BDCs) and real estate investment trusts (REITs) are required by law to distribute 90% of their taxable income to investors.

As a result, for income-oriented investors, companies registered as BDCs and REITs make for perfect fits when looking to produce steady income capable of offsetting market losses resulting from higher interest rates. (See Page 34.)

A BDC like SLR Investment (SLRC), for instance, yields an astounding 11.12% annually while shares have held steadily between \$13.94 and \$19.26 over the past year.

While investors are paid to hold shares in companies like these, they have the opportunity to reinvest those dividend payouts, which bolsters the principle upon which compounding

growth is established. Look no further than any of the internet's dozens of free dividend reinvestment calculators to determine the types of prospective returns this can produce.

High-Yield ETFs

Similarly to how dividend-paying companies provide long-term insulation against Federal Reserve-induced market selloffs, ETFs that focus on sectors and companies historically paying dividends can help investors combat inflation and the central bank's efforts to quell it. They also provide the same compounding interest benefits as high dividend-paying stocks for those who reinvest.

Dividend Aristocrats and Kings offer reduced risk compared to other stocks, and for investors turning to high-yield ETFs that risk is further minimized. One of the best aspects of owning ETFs is the broadened exposure they offer in conjunction with reduced risk that results from diverse allocations.

Funds like the Liberty All-Star Equity Fund (USA) fit the bill, with holdings including large-cap stalwarts like Amazon (AMZN), Alphabet (GOOGL),

Microsoft (MSFT), Visa (V), UnitedHealth Group (UNH) and Sony Group (SONY) among its top 10 allocations. Shares of USA have remained in a range of \$5.89-\$8.45 this year, while its dividend yields a considerable 10.36%.

It's Not You Versus the S&P

Beating the S&P 500 is a difficult scenario. But that doesn't mean investors should put all of their money into the SPDR S&P 500 ETF Trust (SPY) and be content with its meager 1.53% dividend yield in hopes of avoiding the worst of this bear market.

With traditional safe-havens like bonds and precious metals also underperforming, and while accounting for the impact of decades-high inflation and the Fed's ongoing fight to reduce it, better options are certainly available.

Investors with reduced risk tolerance and the foresight to include companies in their portfolios with accommodating yields and stable prices can, over time, mute the uncertainty that the Federal Reserve's interest rate hikes cause in the vast majority of retail investors. **B**

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This strategy enables a taxpayer who earns too much to contribute to a Roth to make an after-tax contribution to a traditional IRA and then convert that account to a Roth IRA shortly thereafter. This loophole has been debated for years, but hasn't been closed yet.

Consulting Your Tax Adviser

This time of year is an excellent time for you to check in with your accountant about your situation (the earlier the better!) Your accountant can advise you as to whether you should be making estimated federal

or state tax payments by year-end or in January based on the information you provide. By taking some action now, you should be able to reduce your tax bill somewhat. In addition, it will be easier for you to put together your tax information in January. Good luck! **B**

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