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YEAR-END TAX PLANNING *for 2022*

Albert Einstein is credited with the famous quote, *"The hardest thing in the world to understand is the income tax."* And income tax isn't the only challenge. The approximately 75,000 pages of the U.S. Tax Code, federal tax regulations and official tax guidance can make it challenging to have a coordinated tax-strategy.

That's why we stay current on the ever-changing tax environment. You don't have to wade through tax-planning on your own, we're here to offer practical, actionable strategies you can implement right away and help you keep more of what you make.

Fortunately, this year has brought limited changes in tax laws for individuals, other than some IRS inflation adjustments. Many of the provisions that were passed in bills like The Inflation Reduction Act of 2022 affected corporations, such as the corporate minimum tax of 15% for corporations with adjusted federal income over $1 billion dollars.

Still, we suggest you begin your year-end planning early and consider these strategies. Appropriate tactics for you will depend on your income as well as several other personal circumstances. Please note that this report is not a substitute for using a tax professional.

YEAR-END TAX PLANNING FOR 2022

Evaluate the use of itemized deductions versus the standard deduction.

For 2022 tax returns, the standard deduction amounts increase to $12,950 for individuals and married couples filing separately, $19,400 for heads of household, and $25,900 for married couples filing jointly and surviving spouses.

Remember, the Tax Cuts and Jobs Act roughly doubled the standard deduction. Although personal exemption deductions are no longer available, the larger standard deduction combined with lower tax rates and an increased child tax credit could help you lower your tax bill.

CFS Advice: *Run the numbers to assess the impact on your situation before deciding to take itemized deductions. If you are working with an accountant, they should be analyzing this for you. Tax software programs like Tax Act and Turbo Tax could also help you in making this decision.*

Consider bunching charitable contributions or using a donor-advised fund.

One way you can benefit from the tax advantages of charitable contributions is through a strategy referred to as bunching - the consolidation of donations and other deductions into targeted years so the deduction in those years exceeds the standard deduction.

Another strategy is a donor-advised fund, which allows you to make a charitable contribution, receive an immediate tax benefit and then recommend grants to charities from the fund over time. You can take advantage of the charitable deduction if you're at a higher marginal tax rate, while actual payouts from the fund can be deferred until later. Win-Win!

CFS Advice: *Donor advised funds are especially useful in two scenarios.*

- *If you have a year where your income will be higher than normal and you're looking for a way to lower your taxes in that specific year.*
- *If you are not yet 70 ½ years old and you give a lot to charity each year but can't write much off on your taxes.*

If you need guidance, please contact us and we can assist you.

This guide was written with the most current information as of late October, 2022.

Review your home equity debt interest.

If you took out your mortgage after October 13, 1987, and before December 16, 2017, mortgage interest is fully deductible up to the first $1,000,000 of mortgage debt. The threshold has been lowered to the first $750,000 on homes purchased after December 15, 2017.

Home equity lines of credit (HELOCs) are deductible as well, but only if you used the funds to buy or substantially improve the home that secures the loan.

> ***CFS Advice:*** *Please share with your tax preparer how the proceeds of your home equity loan were used. If you used the cash to pay off credit card or other personal debts the interest isn't deductible.*

Revisit the use of qualified tuition plans.

A qualified tuition plan, 529 plans are a tax-efficient way to manage the financial burden of paying tuition for children or grandchildren. Originally, earnings in a 529 plan could be withdrawn tax-free only when used for qualified higher education at colleges, universities, vocational schools or other post-secondary schools. That's changed and you can now pay up to $10,000 per year from a 529 plan for tuition at an elementary or secondary public, private or religious school.

Unlike IRAs, there are no annual contribution limits for 529 plans. Instead, there are maximum aggregate limits which vary by plan. Under federal law, 529 plan balances cannot exceed the expected cost of the beneficiary's qualified higher education expenses. Limits vary by state. Some states even offer a state tax credit or deduction up to a certain amount.

Contributions to a 529 plan are considered completed gifts for federal tax purposes, and in 2022 up to $16,000 per donor, per beneficiary, qualifies for the annual gift tax exclusion. Excess contributions above $16,000 must be reported and will count against the taxpayer's lifetime estate and gift tax exemption amount ($12.06 million in 2022).

There is also an option to make a larger tax-free 529 plan contribution, if the contribution is treated as if it were spread evenly over a 5-year period. For example, a $80,000 lump sum contribution to a 529 plan can be applied as though it were $16,000 per year, as long as no other gifts are made to the same beneficiary over the next 5 years.

> ***CFS Advice:*** *Grandparents sometimes use the 5-year gift-tax averaging as an estate planning strategy. If you want to explore setting up a 529 plan, we would be happy to assist you.*

Business Owners: Maximize your qualified business income deduction (if applicable).

One of the most talked about changes from the Tax Cuts and Jobs Act enacted in 2017 is the qualified business income deduction under Section 199A. Current proposals want to change this deduction. But, for 2022, if you own interests in a sole proprietorship, partnership, LLC, or S corporation, you may be able to deduct up to 20% of your qualified business income. Please be careful because this deduction is subject to various rules and limitations.

If you own a business, you may want to adjust your business's W-2 wages to maximize the deduction or convert your independent contractors to employees where possible. Before doing so, please make sure the benefit of the deduction outweighs the increased payroll tax burden and cost of providing employee benefits. You may also think about investing in short-lived depreciable assets, restructuring the business, and leasing or selling property between businesses.

> ***CFS Advice:*** *This piece of tax legislation is complicated; we could take an entire report to discuss it fully. If you are a business owner, we recommend you talk with a qualified tax professional about how this new Section 199A could potentially work to your benefit.*

Income Tax Rates for 2022

Under current law this seven-rate structure phases out on January 1, 2026.

Tax Rate	Single	Married/Joint & Widow(er)	Married/Separate	Head of Household
10%	$0 to $10,275	$0 to $20,550	$0 to $10,275	$0 to $14,650
12%	$10,276 to $41,175	$20,551 to $83,550	$10,276 - $41,775	$14,651 to $55,900
22%	$41,176 to $89,075	$83,551 to $178,150	$41,776 - $89,075	$55,901 to $89,050
24%	$89,076 to $170,050	$178,151 to $340,100	$89,076 - $170,050	$89,051 to $170,050
32%	$170,051 to $215,950	$340,101 to $431,900	$170,051 - $215,950	$170,051 to $215,950
35%	$215,951 to $539,900	$431,901 to $647,850	$215,951 - $323,925	$215,951 to $539,900
37%	$539,901 or more	$647,851 or more	$323,926 or more	$539,901 or more

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IT IS OUR PRIVILEGE TO HELP YOU SIMPLIFY FINANCIAL PLANNING AND PROVIDE:

- Appointments scheduled at regular intervals to review and adjust your financial plan, answer questions and provide education on subjects and issues that could affect your long-term success.
- Consistent and strong communication, articles and newsletters like this one, and emailed market updates.
- Education and social events, and regular update phone calls.
- Extraordinary service by a highly qualified and genuinely committed team.
- Coordination and consultation with your attorney, tax preparer, and other professionals to help you gain financial clarity in ALL areas.
- Tax reduction strategies and a complete review of tax planning and returns.

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Additional Year-end Tax Strategies and Ideas

Make use of the annual gift tax exclusion. You may gift up to $16,000 tax-free to each donee in 2022. These "annual exclusion gifts" do not reduce your $12,060,000 lifetime gift tax exemption. This annual exclusion gift is doubled to $32,000 per donee for gifts made by married couples of jointly held property or when one spouse consents to "gift-splitting" for gifts made by the other spouse.

Help someone with medical or education expenses. There are opportunities to give unlimited tax-free gifts when you pay the provider of the services directly. The medical expenses must meet the definition of deductible medical expenses. Qualified education expenses are tuition, books, fees, and related expenses, but not room and board.

Make gifts to trusts. These gifts often qualify as annual exclusion gifts ($16,000 in 2022) if the gift is direct and immediate. A gift that meets all the requirements removes the property from your estate. The annual exclusion gift can be contributed for each beneficiary of a trust. We are happy to review the details with your estate planning attorney. Contact the Client Service Team at cfsteam@mycfsgroup.com or by phone at 606-357-8553 or 605-352-9490.

Looking Ahead - 2023

The Internal Revenue Service accounted the tax year 2023 annual inflation adjustments to more than 60 tax provisions. Here are some you may be interested in the most:

2023 Projected Tax Rates

Standard Deduction Amounts

Filing Status	Standard Deduction
Married Filing Jointly	$27,700
Heads of Households	$20,800
All Other Taxpayers	$13,850

SOURCE: Bloomberg Tax

Marginal Tax Brackets for 2023 Tax Year

Marginal Rate	Individual Income	Married Couples Filing Jointly
10%	$11,000 or less	$22,000 or less
12%	$11,000 to $44,725	$22,001 to $89,450
22%	$44,726 to $95,375	$89,451 to $190,750
24%	$95,376 to $182,100	$190,751 to $364,200
32%	$182,101 to $231,250	$364,201 to $462,500
35%	$231,251 to $578,125	$462,501 to $693,750
37%	$578,126 or more	$693,751 or more

HOLIDAY HOURS & OFFICE CLOSINGS

November 24
Both offices and the markets closed

November 25
Huron office closed all day, Sioux Falls office closes at noon

December 16
Offices closed during our **Quarterly Team Meeting**
The phones will be staffed for emergencies.

December 26
Both offices and the markets closed

January 2
Both offices and the markets closed

Some Notable and Continuing Tax Changes for 2022

Some previous itemized deductions are still affected in 2022 under the tax laws:

- Alimony deductions. For divorce and separation instruments executed or modified after December 31, 2018, alimony and separate maintenance payments are not deductible by the payor-spouse, nor includible in the income of the payee-spouse.
- State and local income, sales, and real and personal property taxes (SALT) are still limited to $10,000.
- Medical Expense Deduction. The 2022 threshold for deducting medical expenses on Schedule A is 7.5% of your 2022 adjusted gross income (AGI).

***CFS Advice:** If you think you qualify, keep track and see IRS.gov for the IRS list of expenses that qualify as "medical expenses".*

Retirement Plan Strategies

If you have earned income or are working, a retirement contribution could be one of the smartest tax moves you can make. This is an ideal time to make sure you maximize your intended use of retirement plans for 2022 and start thinking about your strategy for 2023.

The retirement plan strategies we've outlined below are the limits for 2022. We've highlighted changes for 2023 on page six.

401(k) contribution limits increased. The elective deferral (contribution) limit for employees under the age of 50 who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is $20,500. The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan remains at $6,500 ($27,000 total). **Contributions must be made in 2022.**

IRA contribution limits unchanged for 2022. The limit on annual contributions to an Individual Retirement Account (IRA) remains at $6,000 for 2022. The additional catch-up contribution limit for individuals aged 50 and over remains $1,000 (for a total of $7,000). **IRA contributions for 2022 can be made up to the April 17, 2023, filing deadline.**

Increased Roth IRA income cutoffs. The MAGI phase-out range for taxpayers making contributions to a Roth IRA is $204,000 - $214,000 for married couples filing jointly in 2022. For singles and heads of household, the income phase-out range is $129,000 - $144,000. For a married individual filing a separate return, the phase-out range remains at $0 to $10,000. **Please keep in mind, if your earned income is less than your eligible contribution amount, your maximum contribution amount equals your earned income.**

Larger saver's credit threshold. The MAGI limit for the saver's credit (also known as the Retirement Savings Contribution Credit) for low- and moderate-income workers is $68,000 for married couples filing jointly in 2022, $51,000 for heads of household and $34,000 for all other filers.

Be careful of the IRA one rollover rule. You are limited to only one rollover from all of your IRAs to another in any 12-month period. A second IRA-to-IRA rollover in a single year could result in:

- Income taxes on the rollover
- A 10% early withdrawal penalty
- A 6% per year excess contributions tax as long as that rollover remains in the IRA.

Multiple trustee-to-trustee transfers between IRAs and conversions from traditional IRAs to Roth IRAs are allowed in the same year. You can only make one IRA rollover during any 1-year period, but there is no limit on trustee-to-trustee transfers.

***CFS Advice:** If you are considering a rollover, the key is understanding the difference between a **rollover and a trustee-to-trustee transfer**. Most of the time, when people use the term "rollover" they are actually referring to what the IRS calls a trustee-to-trustee transfer.*

A **rollover**, as defined by the IRS, occurs when a check is made **payable from an IRA to YOU**. Since it is payable to you, you are free to cash that check as long as you redeposit the money BACK into an IRA within 60 days. THAT is considered a rollover. A **trustee-to-trustee transfer** occurs when funds are withdrawn from an IRA but the check is made payable to the new IRA Custodian (i.e. Raymond James).

An area of concern is taking a CD IRA out of one bank and putting it into another. Make sure the bank makes the check payable to the new custodian and not to you directly.

If you have any questions regarding rollovers and your available options, please contact us at cfsteam@mycfsgroup.com or 605-357-8553 or 605-352-9490.

Roth IRA Conversions

Converting part or all of your traditional IRAs to a Roth IRA isn't a simple decision. While Roth IRA conversions can be helpful, they can also create immediate tax consequences and potential penalties. Under the current laws, you can no longer unwind a Roth conversion by re-characterizing it.

CFS Advice: *You should run the numbers with a qualified professional to determine the most appropriate strategy for your personal situation. Contact us if you would like to review your Roth IRA conversion options.*

HELP — A — FRIEND

Not all people who call themselves financial planners review annual tax returns to coordinate investments, financial planning, and tax-strategy. If the subject of taxes comes up during coffee with friends or at a holiday gathering with family, let the people you care about know they should expect this valuable service. And, if they don't get it, we'd be honored if you would recommend they contact us!

Capital Gains and Losses

Your investment portfolio may be the source of tax-saving opportunities.

Start by reviewing the various sales you have realized so far this year on stocks, bonds and other investments. Then, review what's left and determine whether these investments have an unrealized gain or loss. (Unrealized means you still own the investment. Realized means you've actually sold the investment.)

Know your basis. To determine if you have unrealized gains or losses, you must know the tax basis of your investments - usually the cost of the investment when you bought it. It gets trickier with investments that allow you to reinvest your dividends and/or capital gain distributions. In your non-IRA accounts that are held with us, Raymond James calculates your cost basis for you and reports it on your statements.

Consider loss harvesting. If your capital gains are larger than your losses, you may want to consider doing some "loss harvesting." This means selling certain investments that will generate a loss. You can use an unlimited amount of capital losses to offset capital gains. However, you are limited to only $3,000 ($1,500 if married filing separately) of net capital losses that can offset other income, such as wages, interest and dividends. Any remaining unused capital losses can be carried forward into future years indefinitely.

CFS Advice: *We review this for you and will discuss it at your next appointment if we think it will be beneficial for you.*

Long-term Capital Gains Tax Rates

Tax rates on long-term capital gains and qualified dividends changed for 2022. You may qualify for a 0% capital gains tax rate for some or all long-term capital gains realized in 2022. In 2022, the 0% rate applies for individual taxpayers with taxable income up to $41,675 on single returns, $55,800 for head-of-household filers and $83,350 for joint returns. If this is the case for you, figure out how much long-term capital gains you might be able to recognize to take advantage of this tax break.

2022 Long-term Capital Gains Rate	Single Taxpayers	Married Filing Jointly	Head of Household
0%	Up to $41,675	Up to $83,350	Up to $55,800
15%	$41,676 – $459,750	$83,351 - $517,200	$55,801 - $488,500
20%	Over $459,750	Over $517,200	Over $488,500

SOURCE: irs.gov

The 3.8% surtax on net investment income stays the same for 2022.

NOTE: The 0%, 15% and 20% long-term capital gains tax rates only apply to "capital assets", such as marketable securities, held longer than one year. If you held anything one year or less it's considered a "short-term capital gain" and taxed at ordinary income tax rates.

CFS Advice: *During your review appointment we will evaluate your tax return and provide our advice for whether you should take advantage of any Long-Term Capital Gains.*

What Your Friends Don't Know COULD HURT THEM

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Why do Cornerstone Wealth Advisors ask to look at your tax return every year?

To help you keep more of what you make!
Not all advisors provide this service.

Let your friends and family know they don't have to wonder if they're missing any tax savings. Their financial advisor should look at taxes as part of their annual review appointment, and they should coordinate with tax professionals if necessary. If your friends aren't getting that level of service, have them call us. Or, if you'd like me to reach out to them, email their contact information to cfsteam@MyCFSgroup.com or call me at 605-357-8553.

Charitable Giving

Remember that you can only write off donations to a charitable organization if you itemize your deductions.

Send cash donations to your favorite charity by December 31, 2022. Be sure to hold on to your cancelled check or credit card receipt as proof of your donation. If you contribute $250 or more, you also need a written acknowledgement from the charity.

If you plan to make a significant gift to charity this year, consider gifting appreciated stocks or other investments that you have owned for more than one year. This boosts the savings on your tax returns. Your charitable contribution deduction is the fair market value of the securities on the date of the gift, not the amount you paid for the asset and therefore you avoid having to pay taxes on the profit.

Do not donate investments that have lost value. It's better to sell the asset with the loss first, then donate the proceeds. This allows you to take both the charitable contribution deduction and the capital loss.

Qualified Charitable Distribution (QCD). The law allows taxpayers age 70½ and older to make a Qualified Charitable Distribution (QCD) in the form of a direct transfer of up to $100,000 directly from their IRA over to a charity, including all or part of the required minimum distribution (RMD). If you meet the qualifications to utilize this strategy, the funds must come out of your IRA by December 31, 2022.

CFS Advice: *If you are over 70 ½, a qualified charitable distribution (QCD) from a traditional IRA may be a good option for you. If done correctly, there are ways to reduce your tax burden and give to your favorite organization. Learn more at mycfsgroup.com/giving-back-sfw-article. If this is a strategy you're considering, please contact the Client Service Team at cfsteam@mycfsgroup.com or 605-357-8553 or 605-352-9490.*

Estate, Gift, and Generation-Skipping Tax Changes

Although there are proposals aimed at changing exemption amounts for gift, estate, and generation-skipping taxes, for 2022 the limit is $12.06 million ($24.12 million for married couples) and the income tax basis step up/down to fair market value at death is in place. Any amount over that is subject to 40% Federal taxes. This high amount provides high net worth individuals a significant planning window to make gifts and set up irrevocable trusts.

Remember, the estate tax exclusion is due to revert to pre-2018 levels in 2026, (adjusted for inflation, which we project will be $6-7 million under current law).

CFS Advice: *Gifting requires careful planning and consideration. If you are thinking about gifting, schedule a meeting with us to ensure your estate and gift tax plans are appropriately executed and ensure your strategy is relevant for the current tax year.*