Top 10 2022 Year-End Planning Ideas for Individuals

September 27, 2022

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The Key Wealth Institute is a team of highly experienced professionals from across wealth management, dedicated to delivering commentary and financial advice. From strategies to manage your wealth to the latest political and industry news, the Key Wealth Institute provides proactive insights to help grow your wealth.

This year, we have seen our economy learn not only to live with the COVID-19 pandemic but to reaccelerate, too. We have also experienced geopolitical risk with the war between Ukraine and Russia, investment market volatility, rising inflation and rising interest rates. We have seen much of President Joe Biden's Build Back Better legislation dwindle to what was passed in the Inflation Reduction Act. With this year's midterm elections, the president's tax agenda may be stopped in its tracks. A few other legislative proposals possibly could pass during a lame-duck session, namely retirement saving incentives and provisions that could affect charitable planning.

But a few provisions in the Inflation Reduction Act will affect planning in future years as will the expiration of tax cuts at the end of 2025. Market volatility and inflation seem to be top of mind for many clients. So, as we approach year-end,
do not get caught up in the uncertainty. Make sure your planning is where it should be with 10 planning ideas to consider for 2022.

As a reminder, below is the current individual tax landscape:

- For the wealthiest taxpayers, personal income is subject to a top ordinary rate of 37% and a potential high-wage earners Medicare tax of .9%.
- Special maximum tax rates generally apply to long-term capital gains and qualified dividends (0%, 15%, or 20%).
- There is still a 3.8% Medicare surtax on Net Investment Income.
- Fewer taxpayers are affected by Alternative Minimum Tax (AMT).
- Many more taxpayers are using the increased standard deduction.
- Many itemized deductions have been repealed or significantly reduced. State and local tax deductions are capped at $10,000, qualified home interest deduction rules have changed, the Pease limitation is no longer in place, and some prior miscellaneous itemized deductions are gone.
- And there is the qualified business income deduction for pass-through income.

Here are 10 wealth planning ideas to consider for 2022:

1. Tax bracket management – Accelerate income, accelerate or defer deductions

For now, tax rates may stay the same until the end of 2025. If you expect to be in a higher tax bracket in the next few years, you could accelerate income so it is taxed at the lower rate, deferring deductible expenses until later years when they can be claimed to offset higher-taxed income. Roth conversions, harvesting gains and deferring loss harvesting, exercising stock options, accelerating bonuses or moving up the closing date of a sale are just a few strategies to consider.

Many more taxpayers are using the standard deduction. To maximize itemized deductions in certain years, consider the tactic of bunching expenses into this year or next year to get around deduction restrictions imposed by the Tax Cuts and Jobs Act (TCJA). This applies to deductions such as charitable, state and local taxes (up to $10,000), mortgage interest and miscellaneous itemized deductions. If your tax rate is expected to be higher in the future, consider deferring itemized deductions.

2. Gain/loss harvesting – Make the most of reduced capital gain tax rates

Capital gain planning is still important. Long-term capital gains are taxed at a rate of 0%, 15% or 20%. And the 3.8% surtax on net investment income may apply. If these preferential rates are eliminated after 2025, long-term capital gains could be subject to a higher rate, so you may consider capital gain harvesting – selling now and repurchasing with a higher basis so that future sales will have less capital gain taxed at higher rates. Capital losses cannot be carried back by individuals but can be carried forward indefinitely.

Taxpayers wanting to realize paper losses on stocks while retaining the same investment position can sell and buy shares in the same company or another company, just avoid the wash-sale rules which disallow the loss if substantially the same shares are acquired within the 61-day period beginning 30 days before and ending 30 days after the sale.

The future change in preferential rates also applies to qualified dividend income. This could affect your investment strategy of shifting investments out of holdings that generate income taxed at ordinary rates (e.g., bonds) and into dividend-paying stocks to achieve tax savings. Dividend paying stock may not be as advantageous. You may consider tax-exempt bonds for additional tax savings. If this future change is more likely to occur as a result of expiration of TCJA provisions, review your investment allocation and adjust accordingly.

3. Roth conversions

With the potential for future higher tax rates, many more individuals are considering a Roth conversion and paying the tax on the conversion now at the lower rates. As you get closer to year-end, determining your 2022 marginal tax bracket and projected investment income can be done with more certainty. If you are trying to convert your traditional IRA to a Roth IRA to pay the conversion tax at a lower rate, start those conversations now. Roth conversions can also offset unused tax carryovers that may be wasted.

Traditional IRA to Roth IRA conversions can reduce future required minimum distributions (RMDs) and create a potential tax-free inheritance for children. Under present law, there are no required distributions by the participant from the Roth IRA in future years. There are, however, RMDs for the non-eligible designated beneficiaries of a Roth IRA, generally within 10 years of the original owner's death. And according to the IRS, under the recently proposed SECURE Act regulations, Roth IRA owners are considered to have died before their required beginning date. This means that there are no annual RMDs from inherited Roth IRAs for beneficiaries subject to the 10-year rule. An inherited Roth IRA offers complete flexibility within the 10-year period and avoids the complicated RMD rules. But, you could still get 10 years of post-mortem tax-free growth before final distribution to the non-eligible designated beneficiary.

If your beneficiaries will have lower tax rates than you, then conversion may not be the right strategy. Higher earning taxpayers who cannot contribute directly to a

Roth IRA may be able to contribute to a non-deductible IRA that might later be converted to a Roth IRA. Alternatively, for those unable to contribute to Roth IRA, you may be able to convert the after-tax amount to a Roth IRA or do an in-plan Roth conversion to a Roth 401(k) account. But you can no longer recharacterize Roth conversion contributions as a result of the TCJA.

4. Charitable planning

The limit for cash donations to public charities (excluding donor-advised funds and supporting organizations) reverted back to 60% of adjusted gross income (AGI) for years after 2021. The 100% of AGI limitation was only for tax years 2020 and 2021 due to prior COVID pandemic-related relief provisions. The non-itemized deduction of $300/$600 is also no longer available. For larger contributions, consider a gift to a donor-advised fund or gifting appreciated assets to charity in order to bypass the capital gains.

Some benefit remains for the charitable IRA rollover, which allows individuals age 70½ or older to make a qualified charitable distribution (QCD) from their IRAs directly to a charity and exclude the distribution from gross income (up to $100,000 per year). QCDs may be good strategies for those who file their taxes using the standard deduction. Those who itemize may want to weigh using cash or appreciated stock for 2022 charitable gifts.

5. Review your estate plan

Conversations surrounding end-of-life planning may be more relevant in light of the COVID-19 pandemic. For those under the current federal estate tax exemption amount ($12.06 million per person), estate planning may focus more on making sure assets pass to intended beneficiaries. And consider naming those in key roles – executor, trustee, health care power of attorney etc.

For those concerned with taxable federal estates, an acceleration of the reduction in the federal estate tax exemption may not be likely. Just remember that the rate is still scheduled to drop in 2026 as a result of the TCJA. Those with taxable estates, and assuming you can afford to shift assets out of your estate from a sufficiency standpoint, should consider using the increased exemptions of lifetime gifts. Also, take advantage of the increased generation skipping transfer (GST) tax exemption if you can. When reviewing your estate plan, consider the possibility that a reference to the exemption amount in an estate planning document that was drafted before the enactment of the TCJA could create an undesirable result.

There are a number of trusts that allow you to shift wealth to children or grandchildren while still maintaining access to funds if needed. Such trusts include:

- **Spousal Lifetime Access Trust (SLAT)** which permits each spouse to be a beneficiary of the trust created by the reciprocal spouse.
- **Self-settled Domestic Asset Protection Trusts (DAPTs)** which permit access by naming the grantor as a beneficiary.
- **Non-Self Settled Trusts (Hybrid DAPTs)** which permit access by giving someone a non-fiduciary power to add beneficiaries from a class that includes the grantor.
- **Special Power of Appointment Trusts (SPATs)** which permit access but avoid self-settled trust status.
- **Grantor Retained Annuity Trusts (GRATs)** which are valuable when the expected growth on the transferred assets exceeds the current IRS Section 7520 rate.

6. Interest rate environment

The Federal Reserve (Fed) increased interest rates this year to combat rising inflation. In response, we have been telling clients to reduce debt, especially variable rate debt. If you carry credit card debt, consider a zero percent balance transfer to protect from expected rate hikes. Hold off on using credit for major purchases and be deft with drawing on lines of credit.

As interest rates continue to rise, so does the applicable federal rate (AFR) and the Section 7520 rate used in some estate planning strategies. Usually, the rate that will apply to a specific strategy is the rate in effect when the strategy is entered. Some strategies are more favorable in a low-interest rate environment; others are more effective in a rising or higher rate environment.

For those who expect a taxable estate, current conditions still favor estate-freeze strategies such as:

- **GRATs**, which provide an annuity to the grantor for a period of time.
- **Charitable Lead Annuity Trusts (CLATs)** to benefit charity and provide for non-charitable beneficiaries in the future, with the added benefit of a charitable income tax deduction.
- **Installment sales,** which allow you to give away the upside appreciation potential of assets tax-free.

Rising rates should motivate you to lock in the interest rates while they remain low. As rates continue to increase, though, you should prepare for strategies that work best when interest rates are higher. A Qualified Personal Residence Trust (QPRT) and a Charitable Remainder Annuity Trust (CRAT) are more beneficial strategies in a higher rate environment because they reduce the actuarial value of a taxable gift.

7. Review your portfolio

Make sure your asset allocation is in line with your targets and that it matches your risk tolerance and return requirements. Having a financial plan helps determine what the required return is in order to meet your goals. Staying disciplined during times of volatility is key for the remainder of 2022. With the bond market this year providing little income, there is still some merit to holding bonds for stability and capital preservation. For some investors, new tools such as alternatives and real assets can be incorporated to hedge against inflation.

8. Maximize tax-advantaged savings vehicles

With the potential for a tax rate increase, maximizing tax-advantaged vehicles may be more important. Reduce taxable income by increasing pretax salary deferrals to employer-sponsored retirement plans (401(k), 403(b), 457 & SEP-IRA plans).

If your plan allows after-tax Roth contributions, consider them because there is no income-level phaseout for contributions but there is potential for tax-free growth. Do not forget to consider contributions to IRAs for non-working spouses as well. Also, maximize savings using plans such as health savings accounts (HSAs). If you become eligible in December to make an HSA contribution, you can make a full year's worth of deductible contributions for 2022.

And parents and grandparents, do not forget to fund those 529 accounts. The tax-free growth and ability to take distributions without tax consequences for education purposes are advantageous. If accounts are overfunded, they can be used for education expenses of other family members or future generations. Also do not forget that 529 accounts can be used for K-12 qualified education expenses.

9. Review RMDs in light of the SECURE Act

The SECURE Act of 2019 basically eliminated the "stretch IRA," which allowed IRA or defined contribution plan beneficiaries to draw down the remaining plan benefits over the beneficiary's life expectancy. Inherited IRAs and inherited defined contribution plans must now be distributed within 10 years of the original owner's death. And according to the recently proposed SECURE Act regulations, if an IRA owner died on or after their required beginning date, the account is also subject to annual RMDs for years one to nine of the 10-year period. There are ways to simulate a stretch IRA using lifetime income strategies such as naming a Charitable Remainder Trust (CRT) or a Charitable Gift Annuity (CGA) as beneficiary or using the RMD to purchase life insurance that will provide a tax-free benefit to heirs.

10. Review insurance and risk management

Do not overlook this aspect of your personal financial situation. As life changes, you should review your life insurance coverage for adequacy to meet current and future needs. If your health or lifestyle has changed, a new or modified policy may be needed.

The long-term care insurance field has changed dramatically in the past decade; there are new tools available such as hybrid long-term care policies that eliminate the use-it-or-lose-it nature of insurance products by combining long-term care and death benefits to ensure a benefit is provided.

As your personal asset mix changes, you should also make sure you revisit your property and casualty coverage. Make sure everything in your policy is still accurate and that you have the best coverage for the best price, otherwise, make a note to revisit this when the policy is up for renewal.

Year-end is also a good time to reassess your cybersecurity hygiene with steps such as these:

- Consider a digital password management system.
- Protect your home network with a firewall and antivirus software.
- Freeze your credit.

Next steps

Markets will always be unpredictable, and the volatility experienced in 2022 has been no exception. Are you prepared for what is ahead? As year-end approaches, review your financial situation with your advisor now and make adjustments before time runs out.

Questions you can ask your advisor

- How can I “weatherproof” my financial plan to prepare for more uncertainty in the markets?
- How do these strategies align with my portfolio’s asset allocation, risk tolerance and return requirements?
- What can I do to preserve more of my wealth to reach my long-term goals?

If you have any questions or need more information, please contact your advisor.

About the Author

As the Director of Financial Planning for Key Private Bank, Tina is responsible for managing the Central Planning Team, as well as overseeing the National Advisory Committee, Monthly National Advisory Call and any financial planning literature developed internally and externally. She works with our Regional Directors of Planning to help facilitate our best thinking and advice delivery to clients.

Tina earned a B.S. in Bus. Admin. from the Univ. of Richmond and an M.Tax from Virginia Commonwealth Univ. She is a CFP® certificant, CPA/PFS, and is an AEP®. She is Treasurer of the Put-in-Bay Community Swim & Sail Program. Tina received the 2016 Exceptional Service Award from the Cleveland Estate Planning Council and the Circle of Excellence Award by Key Private Bank in 2016 and 2018.

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