

WSJ: 2022 TAX BREAKS

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Nov. 25, 2022 5:30 am ET

It's time to make year-end tax moves. With inflation way up and markets way down for 2022, there's plenty to track.

As in the past, most actions for tax-year 2022 must be made before Jan. 1, 2023. The main exceptions: Contributions to traditional IRAs, Roth IRAs and Health Savings Accounts for 2022 can often be made until April 18, 2023, next year's tax deadline. Some self-employed taxpayers can make 2022 contributions to Solo 401(k)s until Oct. 16, 2023.

Check withholding and estimated taxes

Inflation has pushed the penalty on tax underpayments to 6%. On Jan. 1, it will likely rise to 7%, far above the 4% rate earlier this year. So, check withholding or quarterly estimated taxes, especially if your income has been uneven or included a windfall.

Most filers must pay 90% of their taxes long before the April tax deadline to avoid the penalty. The due date is Dec. 31, 2022 for employees and Jan. 17, 2023 for those making fourth-quarter 2022 estimated payments.

Employees who raise their paycheck withholding late in the year often escape underpayment penalties for the entire year, and [the IRS has posted a calculator to help](#) figure withholding. Retirees and self-employed taxpayers must do their own assessments.

What if you're headed for a big 2022 refund? Given IRS backlogs and snafus, consider lowering withholding or estimated tax payments to minimize headaches if the refund is delayed.

Standard deduction or itemized?

Assess your deductions. Filers can reduce taxable income by subtracting one overall amount called the standard deduction, or by detailing "itemized" deductions for mortgage interest, state and local taxes, charitable donations, medical expenses and others.

For 2022, the standard deduction is \$25,900 for married joint filers and \$12,950 for single filers. Inflation has lifted the amount for 2023—to \$27,700 for married joint filers and \$13,850 for single filers—something to keep in mind for planning purposes. (Filers age 65 or older get at least \$1,400 more each for 2022 and \$1,500 more for 2023.)

Filers taking the standard deduction for 2022 or 2023 should evaluate whether it makes sense to “bunch” deductions to benefit from itemizing in some years.

Often the best candidates for bunching are charitable donations. This move is harder for medical expenses, as many filers don’t have expenses greater than the 7.5% income threshold. For those who do, the service must be completed in the year of the deduction—so a parent can’t pay the full bill for a child’s orthodontia and deduct it for 2022 if the work isn’t finished until 2023.

Strategize charitable donations

There’s no \$300 or \$600 donation deduction for non-itemizers this year, unlike for 2020 and 2021. So, givers should focus on three key tax breaks for donations.

One is to bunch gifts and take them in some years but not others. For example, say Robert and Susan are married and give \$10,000 a year to charity. But that and other deductions totaling \$10,000 will come to less than the \$25,900 standard deduction for 2022. By making two years of donations in either 2022 or 2023, the couple could take the standard deduction in one year and itemize for the other and maximize overall tax breaks.

Another strategy: donate appreciated investments held longer than a year. Donors can often take a deduction for the fair-market value of an asset without owing tax on its growth. [Conditions and limits apply.](#)

What tax moves are you planning to make before the end of the year? Join the conversation below.

Donors who either bunch deductions or give appreciated assets may want to use a donor-advised fund, or DAF. These allow the donor to take an upfront deduction and wait until later to direct donations to specific charities. [These funds can be convenient but they have fees.](#)

Finally, tax filers age 70 ½ and older can donate traditional IRA assets. Each IRA owner can transfer up to \$100,000 directly to one or more charities and have the donation count toward their required minimum payout, if any.

There’s no deduction for these gifts, [known as qualified charitable distributions](#), but the withdrawals don’t count as taxable income either. That helps to reduce income-adjusted Medicare premiums and taxes on investment income, among other things, and allow the donor to take the standard deduction.

Consider harvesting investment losses

It has been a brutal year for markets, but investors holding securities in taxable accounts have a bit of good news. [They can sell losers, book a capital loss](#), and use that to offset current or future capital gains on winners, plus up to \$3,000 of ordinary income like wages per year.

Losing Proposition Investors who are sitting on losing investments can sell them and use the capital loss to offset taxable income elsewhere.

Those who still like the investment can even harvest losses by selling and then repurchasing the same holding—as long as it's not within 30 days before or after the sale. That runs afoul of the “wash-sale” rules and delays use of the loss.

Rob Williams, head of financial planning at [Charles Schwab](#) Corp., says mutual-fund and ETF investors often have more leeway to avoid wash-sale problems, because they can purchase another fund right away if it's not identical to the one they sold.

Check out a Roth IRA conversion

This move involves [transferring traditional IRA assets into a Roth IRA](#) and paying tax at ordinary income rates on the conversion amount.

In return, withdrawals from the Roth account can be tax-free. If the funds stayed in the traditional IRA, withdrawals would typically be taxed at ordinary income rates like wages.

Two factors favoring conversion: If the saver's tax rate at conversion will be lower than at withdrawal, and if the conversion tax can be paid with funds outside the IRA, says Allan Roth, a financial planner with Wealth Logic.

Make a game plan for inherited IRAs

This year, [the IRS issued rules detailing required annual withdrawals from inherited IRAs](#). These rules only affect IRAs inherited in 2020 or later.

The upshot: Heirs of traditional IRAs whose owners hadn't begun required withdrawals by death and heirs of Roth IRAs have 10 years to empty the accounts, and annual payouts aren't required during that period. Exceptions to the 10-year rule apply for heirs who are spouses, minor children (not grandchildren) of the IRA owner, and certain others.

Heirs of traditional IRAs whose owners had been taking required payouts also have 10 years to empty the accounts, with similar exceptions. But these heirs have to take required minimum payouts yearly.

Based on a recent IRS notice, IRA specialist Ed Slott advises that heirs who are required to take annual withdrawals under the 10-year rule [can skip them for 2021 and 2022](#).

Doing gig work or selling in an online marketplace? Get ready for new IRS reporting rules

Starting this year, many more gig workers and sellers who use platforms like [eBay](#), [Airbnb](#), Venmo and Uber [will have earnings reported to the IRS](#) on 1099 forms than in the past.

The threshold for platforms and other payers to notify the IRS of payments is now \$600, compared with at least \$20,000 before the law changed. Many more payees will need to prove, if audited, why their sales of used clothes on eBay and [Etsy](#) aren't taxable.

Gig workers and platform sellers should be preparing for tax season by gathering records. Some may be behind already and need to catch up on quarterly estimated taxes for 2022.

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