

2021 & 2022 IMPORTANT TAX CHANGES

* **INCOME TAXES:** In 2022, the rates will remain the same as compared to 2021 but the income amounts have been adjusted for inflation.

2021 Tax Rates & Tax Brackets

Tax Rate	Single	Married Filing Joint	Married Filing Separate	Head of Household
10%	Under \$9,950	Under \$19,900	Under \$9,950	Under \$14,200
12%	\$9,951 to \$40,525	\$19,901 to \$81,050	\$9,951 to \$40,525	\$14,201 to \$54,200
22%	\$40,526 to \$86,375	\$81,051 to \$172,750	\$40,526 to \$86,375	\$54,201 to \$86,350
24%	\$86,376 to \$164,925	\$172,751 to \$329,850	\$86,376 to \$164,925	\$86,351 to \$164,900
32%	\$164,926 to \$209,425	\$329,851 to \$418,850	\$164,926 to \$209,425	\$164,901 to \$209,400
35%	\$209,426 to \$523,600	\$418,851 to \$628,300	\$209,426 to \$314,150	\$209,401 to \$523,600
37%	Over \$523,600	Over \$628,300	Over \$314,150	Over \$523,600

2022 Tax Rates & Tax Brackets

Tax Rate	Single	Married Filing Joint	Married Filing Separate	Head of Household
10%	Under \$10,275	Under \$20,500	Under \$10,275	Under \$14,650
12%	\$10,276 to \$41,775	\$20,501 to \$83,550	\$10,276 to \$41,775	\$14,651 to \$55,900
22%	\$41,776 to \$89,075	\$83,551 to \$178,150	\$41,776 to \$89,075	\$55,901 to \$89,050
24%	\$89,076 to \$170,050	\$178,151 to \$340,100	\$89,076 to \$170,050	\$89,051 to \$170,050
32%	\$170,051 to \$215,950	\$340,101 to \$431,900	\$170,051 to \$215,950	\$170,051 to \$215,950
35%	\$215,951 to \$539,900	\$431,901 to \$647,850	\$215,951 to \$323,925	\$215,951 to \$539,900
37%	Over \$539,900	Over \$647,850	Over \$323,925	Over \$539,900

* **AMERICAN RESCUE PLAN ACT:** ACRRA created a 3rd round of economic impact payments (EIPs). The IRS started sending the 3rd round of EIPS in mid-March 2021 automatically based on 2020 AGI (2019 if no 2020 return had been filed at the time the payments were sent out). The economic impact payments are treated as advance tax credits against your 2021 income taxes. If you were issued EIPs by check but believe the payment was lost, stolen, or destroyed, you must request a payment trace for the check from the IRS.

* **PAYCHECK PROTECTION PROGRAM ("PPP"):** PPP ended on May 31, 2021 and no new loans are available. The PPP program remains active for loan forgiveness application only. Borrowers can apply for forgiveness any time up to the maturity date of the loan.

* **UNEMPLOYMENT COMPENSATION:** The COVID-19 unemployment benefits ended in September 2021. Unemployment benefits are taxable for federal purposes, and there is currently no exclusion from income similar to the \$10,200 for 2021. California does not tax unemployment compensation.

* **ENHANCED CHILD TAX CREDIT:** The Child Tax Credit is increased and made fully refundable but only for the 2021 tax year. The credit is increased from \$2,000 per child to \$3,000 (\$3,600 for a child under age 6) for filers under specified AGI threshold. The credit is phased out for modified AGI exceeds \$150,000 for MFJ, \$112,500 for HOH and \$75,000 for single/MFS.

* **MORTGAGE INTEREST:** Interest on home acquisition indebtedness is limit to \$750,000 on home acquisition indebtedness. Home equity debt is NOT deductible starting 2018. Acquisition debt incurred before Dec. 15, 2017 is grandfathered up to \$1 million. However, under California tax law, the acquisition debt remains at \$1 million and home equity debit is still deductible.

* **CAPITAL GAINS DIVIDENDS TAXES:** In 2021, the tax rates for long term capital gains will remain unchanged at 15% for most individuals. Most of those in the 10% and 12% brackets can still take advantage of the 0% long-term capital gains rate. Qualified dividends will also be taxed at these rates. Short term capital gains will be taxed at ordinary income rates.

* **401(k), 403(b), AND MOST PLANS:** In 2022, the contribution limit into 401(k), 403(b), most 457, and the Thrift Savings Plan remains the same at \$20,500. The catch-up contribution limit will remain unchanged at \$6,500 for those over 50 years old, giving a total contribution amount of \$27,000.

* **IRA CONTRIBUTIONS:** In 2022, individuals that have a workplace retirement plan can take an IRA deduction if they are single with a modified adjusted income (MAGI) of under \$78,000 or married with a MAGI of under \$129,000. For individuals who do not have a workplace retirement plan but their spouse does, an IRA deduction is available if their MAGI is under \$214,000. The IRA contribution limit remains at \$6,000 with a catch-up of \$1,000 for those over 50 years old. For taxable years beginning after December 31, 2019, the SECURE Act removed the age restrictions for taxpayers to contribute to a traditional IRA.

* **ROTH IRA CONTRIBUTIONS:** In 2022, the Roth IRA income limitations increased to \$144,000 to individuals and \$214,000 for married couples. The contribution amount remains at \$6,000 with a \$1,000 catch-up for those over 50 years old. If you don't qualify for a Roth IRA, you may consider converting an IRA to a Roth IRA. Conversions, however need to be done by December 31, NOT April 15th. "Backdoor Roths" are still available.

* **QUALIFIED BUSINESS INCOME DEDUCTION:** Starting 2018, individual taxpayers general may deduction up to 20% of their domestic "qualified business income". For 2021, the deduction is phased out starting at \$329,800 for married joint filers, \$164,900 for single, head of household and married filing separate individuals. Income from "specified service trades or businesses" is not eligible for the deduction when taxable income is at or above the phase out ceiling.

* **RESIDENTIAL ENERGY EFFICIENT PROPERTY CREDIT:** In 2021, solar property credit on your personal use properties (primary residence, vacation home) is reduced to 26% for property installed after December 31, 2019. The credit drops to 22% for property installed after December 31, 2020, and no credit is available if the solar property is installed after December 31, 2021. Also you may be entitled to plug-in Electric Drive vehicles Credit purchased in 2021. The credit is up to \$7,500 and varies depending on the kilowatt of the vehicle battery. Vehicles include the Chevy Volt, Nissan Leaf, Ford Fusion Electric, and many others. Note that Teslas delivered after 2019 is completely ineligible for the credit. In addition to the Federal tax credit you may also qualify for CA, PG&E, and local rebates.

* **SECTION 179 EXPENSE DEDUCTION:** For 2021, the 179 expensing for small businesses is increased to \$1,050,000 and increases the phase-out threshold to \$2,620,000.

* **STANDARD MILEAGE RATES:** In 2021 standard mileage rates are as follows: 56 cents per miles for business miles, 16 cents per medical mile, and 14 cents per charitable miles. The 2022 rates have not been published at the time of writing this letter.

* **QCDs and CHARITABLE CONTRIBUTIONS:** With the increased standard deductions, it might be a good idea to setup a qualified charitable contribution (QCD) instead of making an after tax charitable contribution. QCDs can be setup with your IRA custodian. The limitation for QCDs is \$100,000 a year. You will not get a tax deduction on the QCD but you will not need to recognize it as income either. For noncash donations, please make your best attempt at estimating the fair market values of the goods you donate to any charitable organization. For donations over \$500, you should know how it was obtained and at what cost. In the case of large items, you may need to obtain an appraisal. A blank slip from the organization no longer suffices. Stocks that have appreciated in value also make good contributions as you do not have to recognize the gain but get to deduct the fair market value of the donation.