Tax-Saving Tips
2022 Year-End Edition for Individuals

December 2022

To All Clients,

Last-Minute Year-End Tax Strategies for Your Stock Portfolio

When you take advantage of the tax code's offset game, your stock market portfolio can represent a little gold mine of opportunities to reduce your 2022 income taxes.

The tax code contains the basic rules for this game, and once you know the rules, you can apply the correct strategies.

Here's the basic strategy:

- Avoid the high taxes (up to 40.8 percent) on short-term capital gains and ordinary income.
- Lower the taxes to zero-or if you can't do that, lower them to 23.8 percent or less by making the profits subject to long-term capital gains.

Think of this: you are paying taxes at a 71.4 percent higher rate when you pay at 40.8 percent rather than the tax-favored 23.8 percent.

To avoid higher rates, here are seven possible tax planning strategies.

Strategy 1

Examine your portfolio for stocks you want to unload and make sales where you offset *short-term* gains subject to a high tax rate, such as 40.8 percent, with *long-term* losses (a rate of up to 23.8 percent).

In other words, make the high taxes disappear by offsetting them with low-taxed losses, and pocket the difference.

Strategy 2

Use *long-term* losses to create the $3,000 deduction allowed against ordinary income.

Larry M. Walker, Jr., EA, CFS
Enrolled Agent, Certified Fund Specialist
***Registered Representative**

828 Burton Ridge Dr
Loganville, GA 30052
Office: 770.978.9565
Fax: 404.795.0467

www.4-Serenity.com
lwalker@4-serenity.com

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Again, you are trying to use the 23.8 percent loss to kill a 40.8 percent rate of tax (or a 0 percent loss to kill a 12 percent tax if you are in the 12 percent or lower tax bracket).

Strategy 3

As an individual investor, avoid the wash-sale loss rule.

Under the wash-sale loss rule, if you sell a stock or other security and then purchase substantially identical stock or securities within 30 days before or after the date of sale, you don't recognize your loss on that sale. Instead, the code makes you add the loss amount to the basis of your new stock.

If you want to use the loss in 2022, you'll have to sell the stock and sit on your hands for more than 30 days before repurchasing that stock.

Strategy 4

If you have lots of capital losses or capital loss carryovers and the $3,000 allowance is looking extra tiny, sell additional stocks, rental properties, and other assets to create offsetting capital gains.

If you sell stocks to purge the capital losses, you can immediately repurchase the stock after you sell it-there's no wash-sale "gain" rule.

Strategy 5

Do you give money to your parents to assist them with their retirement or living expenses? How about children (specifically, children not subject to the kiddie tax)?

If so, consider giving appreciated stock to your parents and your non-kiddie-tax children. Why? If the parents or children are in lower tax brackets than you are, you get a bigger bang for your buck by

- gifting them stock,
- having them sell the stock, and then
- having them pay taxes on the stock sale at their lower tax rates.

Strategy 6

If you are going to donate to a charity, consider appreciated stock rather than cash because a donation of appreciated stock gives you more tax benefit.

It works like this:

- **Benefit 1.** You deduct the fair market value of the stock as a charitable donation.
- **Benefit 2.** You don't pay any of the taxes you would have had to pay if you sold the stock.

Example. You bought a publicly traded stock for $1,000, and it's now worth $11,000. If you give it to a 501(c)(3) charity, the following happens:

- You get a tax deduction for $11,000.
- You pay no taxes on the $10,000 profit.

Two rules to know:

1. Your deductions for donating appreciated stocks to 501(c)(3) organizations may not exceed 30 percent of your adjusted gross income.

2. If your publicly traded stock donation exceeds the 30 percent, no problem. Tax law allows you to carry forward the excess until used, for up to five years.

Strategy 7

If you could sell a publicly traded stock at a loss, do not give that loss-deduction stock to a 501(c)(3) charity. Why? If you sell the stock, you have a tax loss that you can deduct. If you give the stock to a charity, you get no deduction for the loss - in other words, you can just kiss that tax-reducing loss goodbye.

Last-Minute Year-End Tax Strategies for Marriage, Kids, and Family

Are you thinking of getting married or divorced? If yes, consider December 31, 2022, in your tax planning.

Here's another planning question: do you give money to family or friends (other than your children, who are subject to the kiddie tax)? If so, you need to consider the zero-taxes planning strategy.

And now consider your children who are under the age of 18. Have you paid them for the work they've done for your business? Have you paid them the right way?

Here are five strategies to consider as we come to the end of 2022.

1. Put Your Children on Your Payroll

If you have a child under the age of 18 and you operate your business as a Schedule C sole proprietor or as a spousal partnership, you need to consider having that child on your payroll. Why?

First, neither you nor your child would pay payroll taxes on the child's income.
Second, with a traditional IRA for the child, the child can avoid all federal income taxes on up to $18,950 of earned income.

If you operate your business as a corporation, you can still benefit by employing the child even though both your corporation and your child suffer payroll taxes.

2. Get Divorced after December 31

The marriage rule works like this: you are considered married for the entire year if you are married on December 31.

Although lawmakers have made many changes to eliminate the differences between married and single taxpayers, the joint return will work to your advantage in most cases.

Warning on alimony! The Tax Cuts and Jobs Act (TCJA) changed the tax treatment of alimony payments under divorce and separate maintenance agreements executed after December 31, 2018:

- Under the old law, the payor deducts alimony payments, and the recipient includes the payments in income.
- Under the new law, which applies to all agreements executed after December 31, 2018, the payor gets no tax deduction, and the recipient does not recognize income.

3. Stay Single to Increase Mortgage Deductions

Two single people can deduct more mortgage interest than a married couple can.

If you own a home with someone other than a spouse, and if you bought it on or before December 15, 2017, you individually can deduct mortgage interest on up to $1 million of a qualifying mortgage.

For example, if you and your unmarried partner live together and own the home together, the mortgage ceiling on deductions for the two of you is $2 million. If you get married, the ceiling drops to $1 million.

If you and your unmarried partner bought your house after December 15, 2017, the reduced $750,000 mortgage limit applies, and your ceiling is $1.5 million.

4. Get Married on or before December 31

Remember, if you are married on December 31, you are married for the entire year.

If you are thinking of getting married in 2023, you might want to rethink that plan for the same reasons that apply to divorce (as described above). The IRS could make considerable savings available to you for the 2022 tax year if you get married on or before December 31, 2022.

To know your tax benefits and detriments, you both must run the numbers in your tax returns. If the numbers work out, you may want to take a quick trip to the courthouse.

5. Make Use of the 0 Percent Tax Bracket

In the old days, you used this strategy with your college student. Today, this strategy does not work with that student because the kiddie tax now applies to students up to age 24.

But this strategy is a good one, so ask yourself this question: do I give money to my parents or other loved ones to make their lives more comfortable?

If the answer is yes, is your loved one in the 0 percent capital gains tax bracket? The 0 percent capital gains tax bracket applies to a single person with less than $41,675 in taxable income and to a married couple with less than $83,350 in taxable income.

If the parent or other loved one is in the 0 percent capital gains tax bracket, you can add to your bank account by giving this person appreciated stock rather than cash.

Example. You give Aunt Millie shares of stock with a fair market value of $20,000, for which you paid $2,000. Aunt Millie sells the stock and pays zero capital gains taxes. She now has $20,000 in after-tax cash, which should take care of things for a while.

Had you sold the stock, you would have paid taxes of $4,284 in your tax bracket (23.8 percent x $18,000 gain).

Of course, $4,000 of the $20,000 you gifted goes against your $12.06 million estate tax exemption if you are single. But if you're married and made the gift together, you each have a $16,000 gift-tax exclusion, for a total of $32,000, and you have no gift-tax concerns other than the requirement to file a gift-tax return that shows you split the gift.

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Our contact information is as follows:

For US Mail:

4-Serenity, Inc.
828 Burton Ridge Dr
Loganville, GA 30052

For Overnight Mail:

4-Serenity, Inc.
PO Box 1208
Loganville, GA 30052

Phone Numbers: Local (770) 978-9565
Virtual Fax Number (404) 795-0467
Denise Weigner (Admin): denise@4-serenity.com
Larry's E-mail: lwalker@4-serenity.com

Larry Walker, Jr., EA, CFS
Enrolled Agent, Certified Fund Specialist