



IRS Inflation-Adjusted Tax Items

February 2022

Overview

In review of 2021, there was significant activity in Congress to craft tax-related legislative changes but many of the provisions impacting wealthy individuals and families outlined in President Biden’s Build Back Better package did not make it into the final legislation that ultimately passed under the “Infrastructure Investment and Jobs Act.” It is hard to predict at this juncture whether the Biden administration and Congress will be successful enacting new tax legislation in 2022 given the mid-term elections later this year. For now, this memorandum highlights the various IRS inflation-adjusted changes that apply in 2022.

Key Tax Rates

The standard deduction for single taxpayers that do not itemize is \$12,950. Married couples filing joint returns that do not itemize will have a standard deduction of \$25,900. For itemizers, state and local tax (SALT) deductions continue to remain capped at \$10,000. The following tables reflect applicable ordinary income, long and short-term capital gains, qualifying dividends and net investment income tax brackets for 2022 compared to 2021.

| 2022 Top Federal Income Tax Rates | |
|---|-------|
| Ordinary earned income, not including short-term capital gains or passive income ¹ | 37.0% |
| Ordinary income including net investment income (interest, short-term capital gains, non-qualified dividends and other passive income) ² | 40.8% |
| Long-term capital gains ³ | 23.8% |
| Qualified dividends ⁴ | 23.8% |

Notes:

- 1 Medicare surcharge of 0.9% applied to wages and self-employment income that exceeds \$200K for singles and \$250K for couples
- 2 Includes interest, dividends, royalties, net rental income and other passive income
- 3 Includes 3.8% surtax on net investment income over \$200K for singles and over \$250K for couples
- 4 Includes 3.8% surtax on net investment income over \$200K for singles and over \$250K for couples

| 2021 Federal Income Tax Brackets | | | | | |
|----------------------------------|-------------------------|-------------------------|------------------------|---------------------|---------------|
| Single | Married Filing Jointly | Married Filing Separate | Head of Household | Estates & Trusts | Marginal Rate |
| Up to \$9,950 | Up to \$19,900 | Up to \$9,950 | Up to \$14,200 | Up to \$2,650 | 10% |
| \$9,951 to \$40,525 | \$19,901 to \$81,050 | \$9,951 to \$40,525 | \$14,201 to \$54,200 | NA | 12% |
| \$40,526 to \$86,375 | \$81,051 to \$172,750 | \$40,526 to \$86,375 | \$54,201 to \$86,350 | NA | 22% |
| \$86,376 to \$164,925 | \$172,751 to \$329,850 | \$86,376 to \$164,925 | \$86,351 to \$164,900 | \$2,651 to \$9,550 | 24% |
| \$164,926 to \$209,425 | \$329,851 to \$418,850 | \$164,926 to \$209,425 | \$164,901 to \$209,400 | NA | 32% |
| \$209,426 to \$523,600 | \$418,851 to \$ 628,300 | \$209,426 to \$314,150 | \$209,401 to \$523,600 | \$9,551 to \$13,050 | 35% |
| Over \$523,600 | Over \$628,300 | Over \$314,150 | Over \$523,600 | Over \$13,050 | 37% |

| 2022 Federal Income Tax Brackets | | | | | |
|----------------------------------|------------------------|-------------------------|------------------------|---------------------|---------------|
| Single | Married Filing Jointly | Married Filing Separate | Head of Household | Estates & Trusts | Marginal Rate |
| Up to \$10,275 | Up to \$20,550 | Up to \$10,275 | Up to \$14,650 | Up to \$2,750 | 10% |
| \$10,276 to \$41,775 | \$20,551 to \$83,550 | \$10,276 to \$41,775 | \$14,651 to \$55,900 | NA | 12% |
| \$41,776 to \$89,075 | \$83,551 to \$178,150 | \$41,776 to \$89,075 | \$55,901 to \$89,050 | NA | 22% |
| \$89,076 to \$170,050 | \$178,151 to \$340,100 | \$89,076 to \$170,050 | \$89,051 to \$170,050 | \$2,751 to \$9,850 | 24% |
| \$170,051 to \$215,950 | \$340,101 to \$431,900 | \$170,051 to \$215,950 | \$170,051 to \$215,950 | NA | 32% |
| \$215,951 to \$539,900 | \$431,901 to \$647,850 | \$215,951 to \$323,925 | \$215,951 to \$539,900 | \$9,851 to \$13,450 | 35% |
| Over \$539,900 | Over \$647,850 | Over \$323,925 | Over \$539,900 | Over \$13,450 | 37% |

Capital Gains Tax Rates

| 2021 Total Income | | 2022 Total Income | | Long Term Capital Gains Rate |
|-----------------------|-----------------------|-----------------------|-----------------------|------------------------------|
| Single Filers | Married Filing Joint | Single Filers | Married Filing Joint | |
| Up to \$40,400 | Up to \$80,800 | Up to \$41,675 | Up to \$83,350 | 0% |
| \$40,401 to \$445,850 | \$80,801 to \$501,600 | \$41,676 to \$459,750 | \$83,351 to \$517,200 | 15% |
| More than \$445,850 | More than \$501,600 | More than \$459,750 | More than \$517,200 | 20% |

Net Investment Income Tax (NII)

| 2021 Net Investment Income Tax (MAGI Thresholds) | | 2022 Net Investment Income Tax (MAGI Thresholds) | |
|--|----------------------|--|----------------------|
| Single Filers | Married Filing Joint | Single Filers | Married Filing Joint |
| Over \$200,000 | Over \$250,000 | Over \$200,000 | Over \$250,000 |

Under the current version of the Build Back Better Act, which is being considered by Congress, the NII surtax would be expanded to cover NII derived in the ordinary course of a trade or business for joint filers with modified AGI over \$500,000, single or head-of-household filers with modified AGI over \$400,000, and married people filing a separate return with a modified AGI over \$250,000. The proposed legislation would also clarify that the surtax doesn't apply to wages on which Social Security and Medicare payroll taxes (i.e., FICA taxes) are already imposed. The Build Back Better Act was passed by the House in December, but it has stalled in the Senate.

Alternative Minimum Tax (AMT)

The AMT is a separate tax calculation that requires individual taxpayers, estates and trusts to add back certain deductions that would otherwise be deductible against their regular tax calculation. The AMT tax rate is generally lower than the highest regular income tax rate, but the base upon which the tax is applied is higher due to the addback of various deductions. While there are several factors that could contribute to a taxpayer being subject to AMT, a combination of: (i) significant long-term capital gains, (ii) exercise of incentive stock options, and/or (iii) accelerated depreciation deductions.

| Alternative Minimum Tax (AMT) | 2022 |
|--|--|
| Maximum AMT exemption amount | Married Filing Joint \$118,100 Single \$75,900 |
| Exemption phaseout threshold | Married Filing Joint \$1,079,800 Single \$539,900 |
| 26% rate applies to AMT income (AMTI) at or below this amount (28% rate applies to AMTI above this amount) | Married Filing Joint \$206,100 Single \$206,100 |

To the extent that a taxpayer is subject to AMT, a common practice is to consider deferring certain deductions (preference items) into the subsequent year and/or accelerating income into the current year if doing so is favorable when factoring in the lower AMT tax rates versus the higher regular tax rates based on income adjusted for deductions disallowed for AMT purposes.

Estate, Gift and Generation-Skipping Adjustments

The exemption amounts for the estate, gift and generation-skipping taxes increase to \$12.06 million in 2022. (\$24.12 million per couple). The annual exclusion amount for gifts will increase from \$15,000 to \$16,000 per year. These changes provide high net worth individuals a significant planning window to make gifts, establish irrevocable trusts and analyze strategies to swap high basis assets included in their taxable estate with low basis assets currently titled in irrevocable trusts.

State Trust Tax Survey Chart

Colony Trust Company now can offer trust administration in both North Carolina and Tennessee, and there may be opportunities to transfer certain administrative functions from less tax friendly states to one of Colony Trust Company's offices, either in NC or TN. The chart below provides a survey of a handful of states in the Mid-Atlantic and Southeastern regions and how they impose taxation. For example, moving the principal place of administration of a non-grantor trust from, SC or MS, to NC or TN, could generate significant state income tax savings.

| State | Taxing Statute | Top Tax Rate | Under What Conditions Does The State Tax a Non-Grantor Trust? |
|-------|---------------------------|--------------|--|
| AL | Ala. Code 40-18-1(33) | 5.00% | If the trust is set up by the Will of an AL resident or settlor was an AL resident at time trust became irrevocable <u>and</u> an AL resident is a beneficiary or trustee for more than seven months during the tax year |
| FL | No tax | 0.00% | No tax |
| GA | O.C.G.A. 48-7-22 | 6.00% | If there is trust property located in GA <u>or</u> if the trustee is "managing funds for the benefit of a resident of" GA |
| MS | Miss. Code Ann. 27-7-5(1) | 5.00% | If the trust is administered in MS |
| NC | N.C. Gen Stat. 105-160.2 | 5.25% | If there is a NC beneficiary (but see <i>Kaestner</i> where US Supreme Ct ruled unconstitutional if only connection is NC beneficiary without other factors) |
| SC | S.C. Code Ann. 12-6-30(5) | 7.00% | If the trust is administered in SC |
| VA | Va. Code Ann. 58.1-302 | 5.75% | If the trust is set up by the Will of a VA resident, <u>or</u> if a trust was created by a settlor who was a VA resident, <u>or</u> a trust which is being administered in VA |
| TN | No tax | 0.00% | No tax |
| DE | 30 Del. Code. 1601(8)-(9) | 6.60% | If the trust is set up by the Will of a DE resident, <u>or</u> settlor of trust was a DE resident, <u>or</u> the majority of the trustees are DE residents for more than ½ the year; <u>in all of such cases only if there is a DE beneficiary</u> |

Retirement Plan and IRA Key Numbers

The following tables reflect IRS elective deferral limits, IRA contribution limits and income phase-out ranges for traditional and Roth IRAs.

| Elective Deferral Limits | 2021 | 2022 |
|---|---|---|
| 401(k), 403(b), 457(b), Profit-Sharing Plans | Lesser of \$19,500 or 100% of participant's compensation (\$26,000 if age 50 or older) ² | Lesser of \$20,500 or 100% of participant's compensation (\$27,000 if age 50 or older) ² |
| Defined Contribution Plans, SEPs | Lesser of \$58,000 or 25% of participant's compensation | Lesser of \$61,000 or 25% of participant's compensation |
| SIMPLE 401(k) plans and SIMPLE IRA plans ¹ | Lesser of \$13,500 or 100% of participant's compensation (\$16,500 if age 50 or older) | Lesser of \$14,000 or 100% of participant's compensation (\$17,000 if age 50 or older) |
| 1 Must aggregate employee deferrals to all 401(k), 403(b) and SIMPLE plans of all employers; 457(b) contributions are not aggregated. 2 Special catch-up limits may also apply to 403(b) and 457(b) plan participants. | | |

The chart below compares the 2021 and 2022 IRA contribution limits.

| IRA contribution limits | 2021 | 2022 |
|---------------------------|---|---|
| Traditional and Roth IRAs | Lesser of \$6,000 or 100% of earned income (\$7,000 if age 50 or older) | Lesser of \$6,000 or 100% of earned income (\$7,000 if age 50 or older) |

| Income phaseout range for determining deductibility of traditional IRA contributions for taxpayers: | 2021 | 2022 |
|---|-----------------------|-----------------------|
| 1. Covered by an employer-sponsored plan and filing as: | | |
| Single/Head of household | \$66,000 - \$76,000 | \$68,000 - \$78,000 |
| Married filing jointly | \$105,000 - \$125,000 | \$109,000 - \$129,000 |
| 2. Not covered by an employer-sponsored retirement plan, but filing joint return with a spouse who is covered by a plan | \$198,000 - \$208,000 | \$204,000 - \$214,000 |

| Income phaseout range for determining ability to fund a Roth IRA for taxpayers filing as: | 2021 | 2022 |
|---|------------------------|------------------------|
| Single/Head of household | \$125,000 - \$140,000 | \$129,000 - \$144,000 |
| Married filing jointly | \$198,000 to \$208,000 | \$204,000 to \$214,000 |

Source: Internal Revenue Service

Spousal IRA Planning

A contribution to a Traditional or Roth IRA is allowed only if the taxpayer has earned income. An exception exists for non-working spouses as long as the couple has at least \$12,000 of combined earned income. This allows the working spouse to contribute \$6,000 to their own IRA and \$6,000 to their spouse's IRA. Deductible contributions for 2021 are allowed until the return due date (April 2022 plus extensions).

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