Charitable Giving | Taxes

Never Too Early to Start Thinking about Current and Future Tax Circumstances

By: Eileen Tam | May 26, 2022

Boston - A key to proper financial planning is to prepare early and stay on top of changing information — especially when it affects an investor's family, taxes and charitable giving goals. Here are the latest federal tax tables and charitable planning strategies that are available to investors in 2022.

2022 Tax Tables

Federal income tax brackets, standard deductions and certain exemptions available to U.S. taxpayers are subject to annual inflation adjustments.

Tax Brackets: Income limits on all seven federal tax brackets have increased this year for each filer category —single filers, married couples filing jointly and heads of households.

Rate	For Unmarried Individuals, Taxable Income Over	For Married Individuals Filing Joint Returns, Taxable Income Over	For Heads of Households, Taxable Income Over
10%	$0	$0	$0
12%	$10,275	$20,550	$14,650
22%	$41,775	$83,550	$55,900
24%	$89,075	$178,150	$89,050
32%	$170,050	$340,100	$170,050
35%	$215,950	$431,900	$215,950
37%	$539,900	$647,850	$539,900

Source: Internal Revenue Service: https://taxfoundation.org/2022-tax-brackets.

Capital Gains: Long-term capital gains are taxed under different income brackets and rates than ordinary income.

Rate	For Unmarried Individuals, Taxable Income Over	For Married Individuals Filing Joint Returns, Taxable Income Over	For Heads of Households, Taxable Income Over
0%	$0	$0	$0
15%	$41,675	$83,350	$55,800
20%	$459,750	$517,200	$488,500

Source: Internal Revenue Service: https://taxfoundation.org/2022-tax-brackets.

Standard Deductions: The Tax Cuts and Jobs Act (TCJA) of 2017 imposed sweeping changes to federal tax laws. Among other changes, TCJA nearly doubled the standard deduction.

Filing Status	Deduction Amount
Single	$12,950
Married Filing Jointly	$25,900
Head of Household	$19,400

Source: Internal Revenue Service: https://taxfoundation.org/2022-tax-brackets.

Lifetime Gift and Estate Tax Exemption: TCJA doubled the lifetime gift and estate tax exemption through 2025. After 2025, the gift and estate tax exemption is scheduled to revert to pre-2018 levels, as adjusted for inflation.

2022		2026
$12.06 million	*for individuals*	$5.49 million, adjusted for inflation
$24.12 million	*for married couples*	$10.98 million, adjusted for inflation

Tax Preparation Planning Ideas

Start gifting assets to family members tax free

In 2022, the IRS raised the annual gift tax exclusion — the amount of money an individual may give in a year to an heir or other individual without incurring gift tax or using the individual's lifetime gift and estate tax exemption — to $16,000.

Annual Gift Tax Exclusion:

↑ $1,000 from 2021

$16,000 for individuals
$32,000 for married couples

For an investor with a large taxable estate, one efficient way to lower its value would be to start distributing an amount equal to the annual gift tax exclusion to selected individuals each year. For example, a donor can start transferring wealth this year by making tax-free gifts of up to $16,000 to each of the donor's children — or $32,000 if the donor "gift splits" with the donor's spouse.

Anticipate 2026 change to lifetime gift and estate tax exemption

The lifetime gift and estate tax exemption is the cumulative amount the government allows taxpayers to give away without incurring a 40% top federal gift or estate tax rate. For 2022, the exemption limit was raised to $12.06 million for individuals and $24.12 million for married couples. Under current law, however, both amounts are scheduled to revert to 2017 levels — $5.49 million and $10.98 million, respectively — as adjusted for inflation on January 1, 2026.

For more information, please refer to this resource: [Transferring wealth to future generations]

Consider "bundling" charitable donations for potential savings

By raising the standard deduction, TCJA dramatically reduced the number of taxpayers who itemize their deductions and, therefore, the number of individuals eligible to claim income tax deductions for their lifetime charitable gifts. As long as the standard deduction remains high, consider the potential benefits of bundling — or combining — charitable deductions typically made over several years into a lump sum.

This alternative approach may help taxpayers accumulate sufficient itemized deductions to exceed the standard deduction for a targeted year and claim charitable income tax deductions in that year for their gifts. Taxpayers may then claim the standard deduction in later years.

Combine cash and securities to maximize charitable deductions

A donor who gives only cash to a public charity is eligible under current law for the largest income tax deduction — up to 60% of adjusted gross income (AGI). Gifts of appreciated securities to public charities are valuable because they ordinarily permit a donor to avoid recognition of capital gains tax on the appreciation *and* receive an income tax deduction, subject to a 30% AGI limit.

For donors who want to give appreciated securities to charity but would also prefer a larger deduction, consider pairing the gift of securities with a gift of cash. With this strategy, a donor's combined gifts are deductible up to 50% of the donor's AGI.

In addition to the federal income tax deduction for qualified gifts to charity available to individual taxpayers, a number of states and local jurisdictions that tax individual income also permit resident taxpayers to deduct or receive a tax credit for qualified gifts to charity.

For more information, please refer to this resource: [State and Local Tax Treatment of Charitable Contributions]

Determine eligibility for donating IRA assets through a QCD

A qualified charitable distribution (QCD) is a direct transfer of funds from an investor's individual retirement account (IRA) to a qualified charity. QCDs are excluded from taxable income and may be counted toward satisfying the required minimum distribution (RMD) for a given year. And because QCDs don't require taxpayers to itemize, they permit filers to receive a tax benefit for gifts to charity even if they claim the standard deduction.

Are you eligible to make a QCD? Key eligibility requirements include:

- You must be 70½ or older (although you are not required to begin taking RMDs until age 72).
- For a QCD to count toward your current year's RMD, funds must be distributed from your IRA generally by December 31.
- The maximum annual amount that may qualify for a QCD is $100,000. (If filing jointly, your spouse may also make a QCD from his/her IRA in the same tax year up to $100,000.)
- The QCD must be distributed directly to a charity from your IRA.
- The recipient organization must be a public charity, other than a donor-advised fund or a supporting organization; a QCD cannot fund a planned gift, such as a charitable remainder trust, pooled income fund or charitable gift annuity.

Bottom line: Financial advisors may consider sharing this information with clients, exploring with them ways to help reduce their taxable estates by gifting assets to loved ones and favorite charities on a schedule they can choose. These charitable giving vehicles and strategies may inspire investors to take advantage of immediate tax deductions, while also establishing a long-term philanthropic legacy that involves their family members.

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