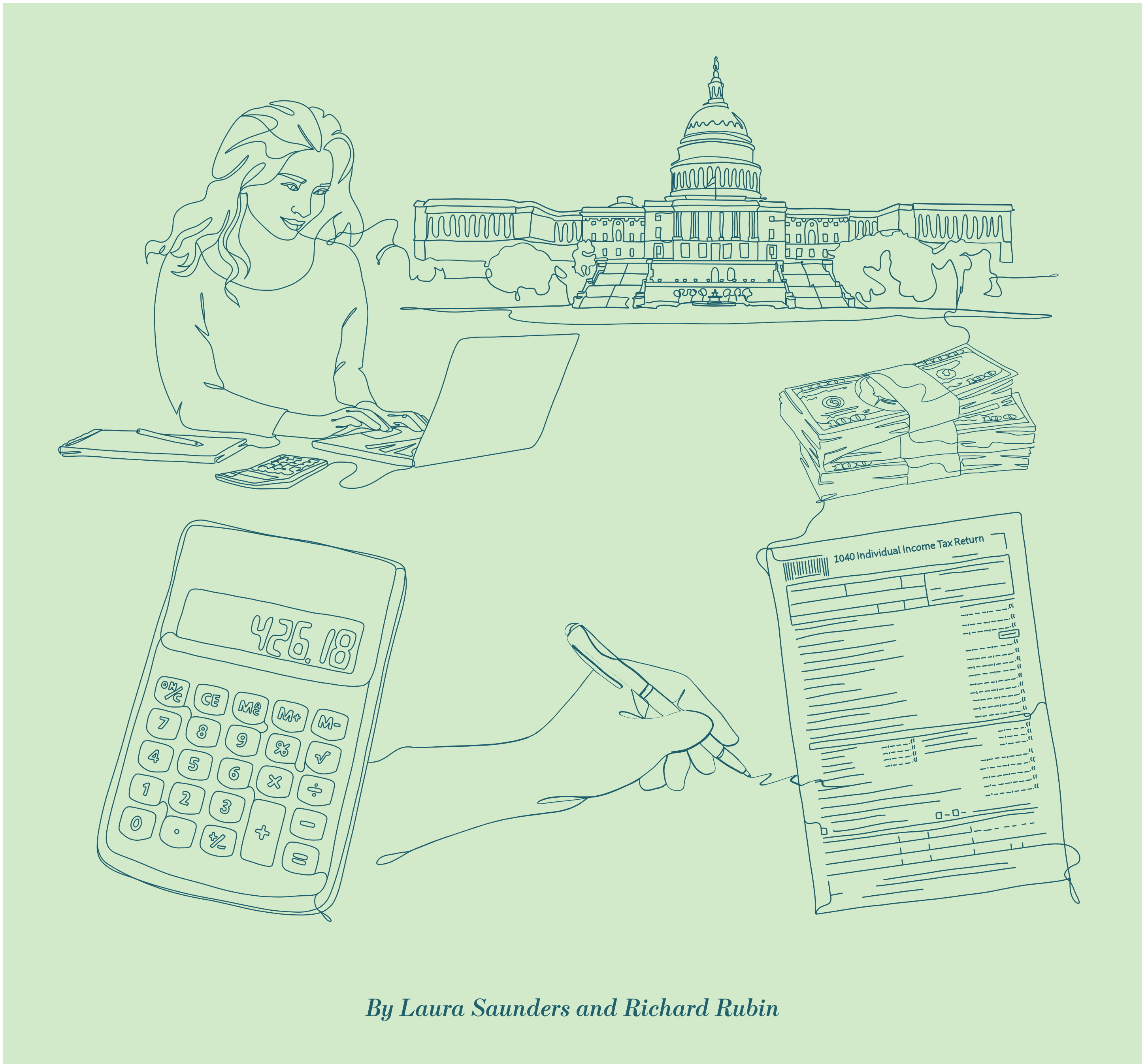
THE WALL STREET JOURNAL.

The WSJ Tax Guide 2022

With the latest on claiming expanded child credits, stimulus payments and more



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Acknowledgments

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Introduction

This is the fifth edition of The Wall Street Journal's Tax Guide. What began with an editor's request to summarize the 2017 tax overhaul's changes for Journal readers has become—thanks to your enthusiastic response—an annual overview of individual income-tax provisions affecting Americans.

There has been no lack of material since we started. Congress has enacted new laws: In 2017 legislators made basic, far-reaching changes set to expire after 2025, while the 2019 Secure Act revised retirement-plan rules. In 2020 and 2021 came a torrent of changes responding to the Covid-19 pandemic. Meanwhile, the Internal Revenue Service has issued guidance on hot-button issues ranging from cryptocurrency to required IRA withdrawals. On top of that, there are inflation adjustments that shift the code slightly every year.

This year's filing season brings special challenges. Tens of millions of taxpayers will grapple with reporting requirements for last year's stimulus payments and expanded child tax credits. In a historic move, Congress had the IRS prepay a portion of the expanded credits in monthly installments during 2021. While this change put needed cash in the pockets of many families, it will shrink refunds many filers are anticipating as well.

As always, taxpayers will have a flood of questions: Do I file for a 2021 stimulus payment through my return, and is it taxable? How did the child- and dependent-care credit change last year? What's the threshold for the zero tax rate on capital gains? What's the deadline for contributing to a Roth IRA?

The WSJ Tax Guide aims to answer these questions and many more. We hope it will help readers in the various areas of their lives touched by taxes. These include saving for college, buying or selling a home, using retirement plans and pandemic disruptions. With this new edition, Wall Street Journal readers have a guide to the 2022 world of taxes.

—Laura Saunders and Richard Rubin

Section 1
The Big Picture

Income-Tax Rates and Brackets

Proposals in Congress to raise top income-tax rates have failed to gain traction, leaving brackets for individuals unchanged

The tax code currently has seven income-tax brackets for individuals that range from 10% to 37%. The 10% rate takes effect at the first dollar of taxable income, after benefits such as the standard deduction are applied. Each tax rate applies to income in that bracket. So a taxpayer whose last dollars are taxed at 24% will likely have portions of income taxed at 0, 10%, 12% and 22%.

THE TOP RATES
The top tax rate is 37%. For 2026, the top rate is set to return to 39.6%.

The current rates and brackets were set by the 2017 tax overhaul, and they expire at the end of 2025. If Congress doesn't make changes, the top rate will return to 39.6% in 2026.

The income-tax rates and brackets are adjusted annually for inflation, although in 2017 Congress switched to an often-slower method for calculating inflation. At the time, the change was projected to cost Americans $133.5 billion over a decade, according to Congress's Joint Committee on Taxation.

Not all tax provisions are inflation-adjusted, however. Among the exceptions are some tax breaks for homeowners, thresholds for taxes on Social Security payments, and certain taxes on investment income. As a result, millions of Americans owe Uncle Sam more than they would if these provisions were indexed. More information about inflation and tax thresholds is here.

Key Inflation-Adjusted Tax Numbers for 2021

Individual income tax	Taxable income	
RATE	SINGLE	MARRIED, FILING JOINTLY
10%	Up to $9,950	Up to $19,900
12%	$9,951 to $40,525	$19,901 to $81,050
22%	$40,526 to $86,375	$81,051 to $172,750
24%	$86,376 to $164,925	$172,751 to $329,850
32%	$164,926 to $209,425	$329,851 to $418,850
35%	$209,426 to $523,600	$418,851 to $628,300
37%	$523,601 +	$628,301 +

Source: Internal Revenue Service

Key Inflation-Adjusted Tax Numbers for 2022

Individual income tax	Taxable income	
RATE	SINGLE	MARRIED, FILING JOINTLY
10%	Up to $10,275	Up to $20,550
12%	$10,276 to $41,775	$20,551 to $83,550
22%	$41,776 to $89,075	$83,551 to $178,150
24%	$89,076 to $170,050	$178,151 to $340,100
32%	$170,051 to $215,950	$340,101 to $431,900
35%	$215,951 to $539,900	$431,901 to $647,850
37%	$539,901 +	$647,851 +

Source: Internal Revenue Service

Investment-Tax Rates and Brackets

Congress hasn't made changes to rates on long-term capital gains and dividends for 2021 and 2022

Investors with taxable accounts—as opposed to tax-favored retirement accounts such as individual retirement accounts or 401(k)s—are often eligible for lower tax rates and other benefits.

When an investor sells a holding in a taxable account, the result is a capital gain or loss. That is the difference between the investment's original cost (plus adjustments) and its selling price. If an investor buys a share for $3 and sells it for $5, the capital gain is $2. If that person buys another share for $3 and sells it for $2, the capital loss is $1.

BUY AND HOLD
Long-term capital gains are profits on investments held longer than a year. They are taxed at favorable rates.

A key benefit is that capital losses can offset capital gains. If the investor in this example sells both shares in the same calendar year, he or she would have a net taxable capital gain of $1 after combining the $2 gain and the $1 loss. If total losses exceed total gains, the net losses can offset up to $3,000 of "ordinary" income such as wages per year.

Another benefit is that unused capital losses can be carried forward to offset future capital gains and ordinary income.

Long-term capital gains are profits on investments held longer than a year. They are taxed at favorable rates of 0%, 15% or 20%.

Short-term capital gains are those on investments held a year or less. They are taxed at the higher rates that apply to ordinary income. This is a key distinction frequent traders should be aware of.

The favorable lower rates for long-term gains also apply to dividends that are "qualified," which are most of them. Other dividends are taxed at the higher rates for ordinary income like wages.

Investment-Tax Rates and Brackets

THE 3.8% SURTAX

A 3.8% surtax applies to net investment income for most single filers with adjusted gross income (AGI) above $200,000 and most couples filing jointly with AGI above $250,000. This surtax applies only to the amount of net investment income above those thresholds, which aren't indexed for inflation.

For example, say that a single taxpayer has earned income such as wages and bonus totaling $150,000, plus a $60,000 taxable capital gain and $20,000 of dividends. This filer would owe the 3.8% tax on $30,000, which is the amount of his AGI above $200,000.

Key Inflation-Adjusted Tax Numbers for 2021

Taxable income	Taxable income	
RATE*	SINGLE	MARRIED, FILING JOINTLY
0%	Up to $40,400	Up to $80,800
15%	$40,401 to $445,850	$80,801 to $501,600
20%	$445,851 +	$501,601 +

*Applies to gains on assets held longer than a year and qualified dividends.
Source: Internal Revenue Service

Key Inflation-Adjusted Tax Numbers for 2022

Taxable income	Taxable income	
RATE*	SINGLE	MARRIED, FILING JOINTLY
0%	Up to $41,675	Up to $83,350
15%	$41,676–$459,750	$83,351–$517,200
20%	$459,751 or more	$517,201 or more

*Applies to gains on assets held longer than a year and qualified dividends.
Source: Internal Revenue Service

Because of the surtax, top-bracket taxpayers typically owe 23.8% instead of 20% on their long-term gains and dividends. Some investors in the 15% bracket for this income owe the 3.8% surtax on part or all of it because their adjusted gross income is above the $250,000/$200,000 thresholds.

Here's another example. Say a single filer has $210,000 of adjusted gross income, and $50,000 of that is a windfall from a long-term gain on an investment and qualified dividends. In that case, all this taxpayer's investment income would

be taxed at a 15% rate. He or she would also owe an additional 3.8% on $10,000 because that's the amount exceeding $200,000. So the rate on the $10,000 would be 18.8%.

HOW THE ZERO RATE APPLIES

Here is a simplified example. Say that Janet is a single taxpayer with $30,000 of taxable ordinary income for 2021 after deductions and exemptions, such as for tax-free municipal-bond interest. Her taxable income is subject to rates up to 12%, as detailed in the income-tax brackets.

But Janet also has a $20,000 long-term capital gain. This "stacks" on top of her $30,000 of taxable income, giving her total taxable income of $50,000. For 2021, the 15% bracket for capital gains begins at $40,401 of taxable income for single filers. As a result, Janet would owe zero tax on about $10,400 of her gain and 15% on about $9,600 of it.

Withholding and Estimated Taxes, Including for Unemployment Benefits

Filers with uneven earnings or unemployment payments should check for tax underpayments to avoid penalties

The U.S. income tax is a pay-as-you-go system. The law requires most employees and self-employed business owners to pay at least 90% of their taxes long before the April due date. This year, the due date for 2021 tax returns for most taxpayers is April 18, 2022 (April 19 for residents of Maine and Massachusetts). Filing deadlines may also be delayed for victims of federally declared disasters. Taxpayers can request a six-month extension to file their returns, but that doesn't delay the requirement to pay what they owe.

With some exceptions, tax underpayments incur penalties based on current interest rates. Recently this rate was 3%. To avoid these penalties, employees and many retirees typically have taxes withheld from paychecks or Social Security and pension payments over the course of the year.

Self-employed business owners and others who don't have withholding instead make quarterly estimated payments of their taxes based on earnings for that quarter. For 2021, the deadlines for quarterly payments were April 15, June 15, Sept. 15 and Jan. 18, 2022. The deadlines for 2022 are April 18, June 15, Sept. 15, and Jan. 17, 2023. Tax payments made after the deadlines but before the April due date help to reduce penalties.

Many Americans also received unemployment compensation in 2021. These payments are taxable, and unlike in 2020 there's no partial exemption. Recipients should expect to receive a Form 1099-G for the total that is being reported to the IRS.

The IRS has posted a calculator to help employees make withholding decisions, and it has been updated for 2022.

For more information on withholding and estimated taxes, see IRS Publication 505.

2021 Pandemic Stimulus Payments

Filers who qualify for higher payments than they received last year can claim those amounts on 2021 tax returns. Look for an IRS letter.

In March 2021, Congress authorized a third round of stimulus payments of up to $1,400 per household member—including adults, children, adult dependents like college students and elderly relatives. These payments aren't taxable, and overpayments don't need to be returned to the IRS in most cases.

To date, the IRS has sent more than 175 million third-round payments totaling more than $400 billion, based on a filer's 2019 or 2020 income. Some of these were "top-up" payments for people who received an amount based on their 2019 income and then qualified for more based on 2020 returns they filed in 2021. That could be, for example, because of a job loss or the birth of a child in 2020.

Because the stimulus payments were structured as an advance payment of a tax credit for 2021, taxpayers can also qualify based on their 2021 income and family situation if they haven't received payments or are eligible for more. These amounts are claimed as a Recovery Rebate Credit on line 30 of Form 1040; the instructions have a worksheet to determine the correct amount.

> "To date, the IRS has sent more than 175 million third-round payments, based on a filer's 2019 or 2020 income."

Single filers with adjusted gross income of $75,000 or less, heads of household with AGI of $112,500 or less and married joint filers with AGI of $150,000 or less qualify for the full $1,400 payment. Above that, the phaseout for receiving a partial payment is steep: Individuals with AGI of $80,000, heads of household with AGI of $120,000 and married joint filers with AGI of $160,000 get nothing.

2021 Pandemic Stimulus Payments

Here are examples of taxpayers who could qualify for rebate credits. Say that a single filer received a partial stimulus payment based on 2020 income of $78,000, and then her income dropped to $70,000 for 2021. In another case, a married couple who received $2,800 of stimulus payments last spring had twins in 2021, and their income was below $150,000 for the year.

In both cases the taxpayers can file for rebate credits on their 2021 tax returns. The single filer can receive the portion of the $1,400 she didn't receive last year, and the couple can receive $1,400 for each child, or $2,800.

To receive the rebate credit, a tax filer typically needs a Social Security number—although parents who don't have these numbers can receive credits for children who do have them. While Congress didn't allow the IRS to use stimulus payments to reduce tax debts or unpaid child support, Recovery Rebate Credits may be subject to such offsets.

To help filers with record-keeping, the IRS has been sending letters in early 2022 to each person who received stimulus payments last year detailing the total amount. Tax professionals are urging people to save these letters to ease preparation of 2021 tax returns because mismatches will likely cause processing and refund delays.

State Taxes on Remote Work

People who work remotely may need to file in, and perhaps pay taxes to, more than one state

The pandemic has turned millions of Americans into telecommuters. As one Covid-19 variant has followed another, some companies have stopped trying to predict when they will require employees to return to the workplace and on what terms.

This shift often brings tax complexity for people working remotely in a state different from the one where their office is, because they may have to file returns and even pay taxes to more than one state.

The problem is that each state's tax system is a unique mix of rules that consider how long a worker is there, what income is earned, and the location of the worker's true home, or "domicile." While some states give credits for taxes paid to different states, others don't—or the credit they give may not fully offset the tax paid.

As a result, out-of-state remote workers can wind up owing more, or the same, or (rarely) less. Businesses often face a torrent of extra tax-filing requirements, even if the amount of income paid to remote workers is relatively small.

A number of states passed special pandemic provisions for remote workers, but these have mostly lapsed, according to Cathie Stanton, a member of the American Institute of CPAs who monitors state taxes on remote work. Some states are eyeing remote workers as a revenue source.

> "People working remotely across state lines need to research exactly what state taxes could apply to them."

State Taxes on Remote Work

"New York, Massachusetts, and North Carolina have always been aggressive, but now I see Montana asking a Florida-based business owner about remote work from his Montana home," she adds.

The upshot is that people working remotely across state lines need to research exactly what state taxes could apply to them.

How will a state know someone has worked there, especially if the office is elsewhere? Both employers and tax preparers risk penalties for misrepresentations on tax forms they prepare, so they will question workers or clients. DIY filers using commercial software should remember that tax returns are signed under penalty of perjury.

More information on this topic, including some tax rules for specific states, is here.

Cryptocurrency

The IRS is cracking down on cryptocurrency tax cheating

Cryptocurrency owners, beware: The IRS is trying to strip away excuses for millions of people who aren't complying with the tax rules on them, either inadvertently or on purpose.

The agency has put a pointed question on the front page of the Form 1040, just below the taxpayer name and address. It first appeared on the 2019 tax return in a less prominent position and moved to its current place on the 2020 return.

On the 2021 return, the question has been reworded slightly: *At any time during 2021, did you receive, sell, exchange or otherwise dispose of any financial interest in any virtual currency?*

> "At any time during 2021, did you receive, sell, exchange or otherwise dispose of any financial interest in any virtual currency?" (Form 1040)

The tax filer must check the box "Yes" or "No." Cryptocurrency owners who don't answer the question or are untruthful risk higher penalties if the IRS audits them, as it will be hard to claim ignorance of the rules.

The agency also has other crypto enforcement efforts under way. In 2021, it persuaded judges in Boston and San Francisco to approve summonses requiring two crypto exchanges to turn over records for customers who had more than $20,000 in transactions in any year from 2016 to 2020.

The IRS first released guidance on the taxation of cryptocurrencies in 2014. It said that bitcoin and other cryptocurrencies are property, not currencies such as dollars or euros. Often they are investment property akin to stock shares or real estate.

Cryptocurrency

This means that if the crypto is held in a taxable account—as opposed to a retirement account like an IRA or Roth IRA—net profits from a sale are typically taxed as long-or short-term capital gains, and losses can be used to offset gains.

This tax treatment has benefits, but also important drawbacks. If crypto is used to make a purchase—even of a sandwich—then the transaction typically generates a taxable sale of the crypto that the buyer must report to the IRS.

For example, say that Jack buys a boat with $10,000 of cryptocurrency that he purchased for $5,000. Jack's transfer of the crypto is taxable. He has to report a taxable gain of $5,000 to the IRS—much as if he bought the boat with shares of stock that had grown from $5,000 to $10,000.

This makes cryptocurrencies a cumbersome substitute for cash.

In 2019, the IRS issued more crypto guidance, including rules for how holders should treat cryptocurrencies if these undergo a reorganization that changes the network protocol of coins or results in the distribution of new tokens. It said that if a crypto owner receives something of value, then its fair market value is taxable at ordinary income rates when the taxpayer has control of it.

In late 2020, the Financial Crimes Enforcement Network (FinCEN), a Treasury Department unit separate from the IRS, announced it may require U.S. taxpayers holding more than $10,000 of cryptocurrencies offshore to file FinCEN Form 114, known as the FBAR, to report these holdings. This rule hasn't yet been adopted, so it wasn't in effect for 2021.

For more detail on the taxation of cryptocurrencies, including tax triggers, lot identification and wash sales, click here.

Estate and Gift Tax

The expanded estate- and gift-tax exemption expires at the end of 2025

The federal estate-and gift-tax exemption applies to the total of an individual's taxable gifts made during life and assets left at death. Above the exemption, the top rate on such transfers is 40%.

In 2017, Congress doubled the exemption starting in 2018, and the amount will continue to rise with inflation through 2025. This expansion helped reduce the number of taxable estates to about 1,300 for returns filed in 2020 from about 5,200 in 2017, according to the latest IRS data.

2022 EXEMPTIONS
$12.06 MILLION
PER INDIVIDUAL
$24.12 MILLION
PER COUPLE

For 2021, the lifetime exemption for both gift and estate taxes was $11.7 million per individual, or $23.4 million per married couple. For 2022, an inflation adjustment has lifted it to $12.06 million per individual, or $24.12 million per couple.

The increase in the exemption is set to lapse after 2025, but in 2019 the Treasury Department and the IRS issued "grandfather" regulations. They allow the increased exemption to apply to earlier gifts if Congress reduces the exemption in the future.

Here is a simplified example. Say that John gave assets of $11 million to a trust for his heirs in 2020. This transfer was free of gift tax because the exemption was $11.58 million for 2020.

Now, say that in 2022 Congress lowers the exemption to $5 million per person, and John dies in 2023 when that lower exemption is in effect. Under current Treasury rules, John's estate won't owe tax on any portion of his 2020 gift of $11 million,

even if $6 million of it is above the $5 million lifetime limit in effect at the time of his death.

CAPITAL GAINS AT DEATH

Under current law, investment assets held at death aren't subject to capital-gains tax. This valuable benefit is known as the "step-up in basis."

For example, say that Robert dies owning shares of stock worth $100 each that he bought for $5, and he held them in a taxable account rather than a tax-favored retirement plan such as an IRA.

Because of the step-up provision, Robert won't owe capital-gains tax on the $95 of growth in each share of stock. Instead, the shares go into his estate at their full market value of $100 each. Heirs who receive the shares then have a cost basis of $100 each as a starting point for measuring taxable gain or loss when they sell.

THE ANNUAL GIFT-TAX EXEMPTION

For 2022, the annual gift-tax exemption has risen to $16,000 per donor, per recipient. In 2021, this limit was $15,000.

Using this tax break, a giver can give someone else—such as a relative, friend or stranger—assets up to the limit each year, free of federal gift taxes. This year, a couple with two married children and six grandchildren could give away a total of $320,000 to these 10 relatives, plus $32,000 to other individuals.

Annual gifts aren't deductible for income-tax purposes, and they aren't income to the recipient.

Estate and Gift Tax

> “Gifts to pay tuition or medical expenses can also be free of gift tax.”

Above the annual exclusion, gifts are subtracted from the giver’s lifetime gift– and estate-tax exemption. However, a married couple can use a technique called “gift splitting” that allows one spouse to make up to $32,000 of tax-free gifts per recipient on behalf of both partners. In this case, the IRS says a gift-tax return should be filed.

If the gift isn’t cash, the giver’s “cost basis” carries over to the recipient. For example, say that in 2022 Aunt Margaret gives her niece, Linda, a share of long-held stock worth $1,000 that she acquired years ago for $200. Neither Aunt Margaret nor Linda owes tax on the gift. But Linda’s starting point for measuring taxable gain when she sells will be $200. If she sells the share for $1,200, her taxable gain would be $1,000.

Gifts of any amount to pay tuition or medical expenses are also free of gift tax. To qualify for this break, the giver must make the payment directly to the institution.

BUNCHING GIFTS FOR COLLEGE

Using another strategy, givers can “bunch” five years of annual $16,000 gifts to a 529 education-savings plan, typically for children or grandchildren. In this case, a gift-tax return should also be filed.

Section 2
Tax Deductions, Credits and Exemptions

Standard Deduction and Personal Exemption

The temporary expansion of the standard deduction and repeal of the personal exemption are continuing to affect millions of Americans

The standard deduction is the amount taxpayers can subtract from income if they don't break out deductions for mortgage interest, charitable contributions, state and local taxes and other items separately on Schedule A. Listing these deductions separately is called "itemizing."

For 2021, the standard deduction is $12,550 for single filers and $25,100 for married couples filing jointly. For 2022, it is $12,950 for singles and $25,900 for married couples.

In 2017, Congress made a landmark change by nearly doubling the standard deduction, and the percentage of filers itemizing deductions dropped to about 11% in 2019 from about 31% in 2017, according to the latest IRS data. This shift has simplified returns for about 30 million filers and lightened the agency's burden by reducing the number of deductions it needs to monitor.

LANDMARK SHIFT

In 2017, Congress made a landmark change by nearly doubling the standard deduction, and the percentage of filers itemizing deductions dropped to about 11% in 2019 from about 31% in 2017.

However, taxpayers taking the standard deduction don't get a specific tax break for having mortgage interest or making charitable donations. (For 2021, Congress is allowing charitable deductions of small amounts by filers who don't itemize.) That change will likely affect future decisions about making donations or owning a home.

PERSONAL EXEMPTION REPEALED UNTIL 2026

In another landmark shift, Congress temporarily repealed the personal exemption at the same time that it nearly doubled the standard deduction. This exemption was a subtraction from income for each person included on a tax return—typically the members of a family. The 2017 amount was $4,050 per person, and it phased out for higher earners.

Standard Deduction and Personal Exemption

The personal exemption was also integral to figuring out an employee's correct withholding from pay.

The interaction of the expanded standard deduction, repealed personal exemption and the expanded child tax credit is complex, and the effects on individuals have varied widely. In part that's because the personal exemption was a deduction from taxable income, while the child credit is a dollar-for-dollar offset of taxes—and taxpayers can get it for 2021 even if they don't owe income taxes.

Both the personal-exemption repeal and the expanded standard deduction expire at the end of 2025.

Child Tax Credit

Two recent expansions of the child tax credit have helped millions of American parents. But prepayments of them will confuse filers during the 2022 tax-filing season.

Congress has expanded the child tax credit twice since 2017, and these expansions have put needed dollars in the pockets of many parents. However, prepayments of the credits during 2021 will also create confusion during the 2022 tax-filing season and could leave some recipients owing unexpected tax bills for 2021. Here's what parents need to know.

As part of the 2017 tax overhaul, Congress doubled the existing child tax credit to $2,000 per child under age 17 at year-end. It is a dollar-for-dollar reduction in taxes that a range of filers can claim, because it begins to phase out at $400,000 of adjusted gross income for married joint filers and $200,000 for single filers.

This expanded child credit is in effect for 2021 and 2022, and it expires at the end of 2025.

EXPANDED CHILD CREDIT

As part of the 2017 tax overhaul, Congress doubled the existing child tax credit to $2,000 per child under age 17 at year-end. This expanded child credit is in effect for 2021 and 2022, and it expires at the end of 2025.

Last March, Congress added a second expansion of the credit just for 2021, as part of its pandemic response. It's up to $1,600 per child under age 6 and $1,000 per child ages six through 17 as of Dec. 31, 2021. Also, just for 2021, the first expansion of the child credit applies to dependents who were 17 at year-end.

This means that for 2021 the total maximum child tax credit is $3,600 per child under six and $3,000 per child from ages six to 17 at year-end. The full credit is refundable and available even to tax filers who have no income and owe no tax.

The income limits are lower for the 2021 expansion, however: The phaseout begins at $75,000 of adjusted gross income for most single filers and $150,000 for most married joint filers. Above that, the taxpayer loses $50 of this credit for every $1,000 of income, so the cap on it varies according to income, number of children

and filing status. The phaseout of this credit is separate from the one for the 2017 expansion, so many parents will still qualify for a $2,000 credit per child even if they don't qualify for the 2021 expansion of $1,000 or $1,600 per child.

In a historic move, Congress also directed the IRS to use existing records to send families monthly prepayments of up to half their total anticipated 2021 child tax credits. These prepayments began in July and continued for six months, usually by direct deposit. They have halted for 2022 because Congress hasn't extended this tax break, although some lawmakers hope to do so.

What will confuse taxpayers this filing season is that last year's prepayments must be reconciled on Schedule 8812 of 2021 tax returns based on actual income and circumstances for the year. Many taxpayers will be due more money from the child credits than they received in prepayments, while others may have gotten prepayments they don't qualify for.

As a result of the prepayments, however, many filers will receive lower than expected refunds or face a higher balance due on their 2021 returns.

Here's a simplified example: Say a married couple with two children over age 5 and $220,000 of income got a $500 tax refund last year on their 2020 return. Their 2021 income was similar, so they didn't qualify for the 2021 expansion of the child credit. But they still qualified for two child credits of $2,000 each, and they received half of that in six monthly payments of about $333 starting last July.

> **"Parents of children born or adopted in 2021 can claim child tax credits for them on their returns, but the children need a Social Security number."**

Child Tax Credit

When this couple prepares their 2021 return, the $2,000 of prepayments won't be available to offset taxes due because they have already received it. Instead of getting an expected refund of $500, they could face the unwelcome surprise of owing the IRS $1,500.

Confusion over the child credit will also affect many divorced or separated couples who have agreed to claim it in alternate years. In that case, the parent who received prepayments last year based on the 2020 tax return likely won't be the one who takes the credit for 2021. These prepayment recipients will likely have to pay all or part of them back, unless their income is below $40,000 for single filers or $60,000 for couples filing jointly.

To help taxpayers navigate child-credit issues, the IRS sent letters early this year detailing what the parent received in prepayments. Taxpayers should save these letters for use in preparing their own returns and double-check their records to make sure the letters are accurate. The letter has a dedicated IRS phone number to call about discrepancies.

Parents of children born or adopted in 2021 can claim child tax credits for them on their returns, but the children need a Social Security number. The expanded child tax credits don't alter longstanding rules defining who is a dependent, described in IRS Publication 501.

The 2021 tax credit for dependents age 18 and older at year-end, such as an older child or elderly relative, is up to $500. For 2022, this credit is set to apply to dependents age 17 and older at year-end.

For more information, click here.

Here are the instructions for Schedule 8812.

State and Local Tax Deductions (SALT)

The limit for deducting state and local taxes is $10,000 per return, but there is a workaround for some business owners

Since the 2017 tax overhaul, the deduction for state and local property and income or sales taxes has been capped at $10,000 per return. Previously these deductions were unlimited for individuals, although many people who owed the alternative minimum tax lost the benefit of some or all of their SALT write-offs.

The $10,000 cap expires at the end of 2025.

Here is how it works. Say that Ed and Jane are married joint filers who paid $8,000 of state income tax and $6,000 of property tax on their home. Before 2018, they could deduct the $14,000 total of these taxes if they itemized on Schedule A.

STATES WITH THE HARDEST-HIT TAXPAYERS:

- New York
- California
- Connecticut
- New Jersey
- Maryland
- Oregon
- Massachusetts

But for tax years 2018-2025, the couple's deduction for state and local taxes is capped at $10,000 per return, and that amount isn't indexed for inflation. This change has prompted many filers to switch to taking the standard deduction rather than itemizing on Schedule A.

The SALT cap affects many married couples more than singles, because the $10,000 SALT limit is per return, not per person.

Can two spouses file separately and claim two $10,000 deductions? No. Although married couples can file separate returns, each spouse would get a $5,000 deduction for state and local taxes. To qualify for two $10,000 deductions, the couple would have to divorce and file as two single taxpayers.

According to the Tax Foundation, the SALT cap has hit hardest in eight high-tax jurisdictions. New York, California, the District of Columbia, Connecticut, New Jersey, Maryland, Oregon, and Massachusetts. It has had the least impact in Alaska, South Dakota, Tennessee, North Dakota, Washington, New Mexico, Texas and West Virginia.

State and Local Tax Deductions (SALT)

Since the SALT cap was imposed, a number of wealthy people, including former President Donald Trump, have left high-tax northeastern states for Florida, which doesn't have a state income tax. Some other residents of high-priced areas have pulled up stakes as well.

In response to the cap, lawmakers in some states have adopted strategies to preserve the deductibility of state and local taxes. The most popular is a provision for owners of "pass-through" businesses such as partnerships, S Corporations, and limited-liability companies that typically pass profits and losses through to the owners for inclusion in their own taxable income.

These workarounds allow pass-through owners to deduct state taxes from their business income by having the business elect to pay the taxes at the entity level. As a result, a smaller amount of taxable income passes through to the owner's personal return, where state taxes paid on it are subject to the $10,000 SALT cap. The Treasury Department issued guidance allowing such changes in November 2020 but hasn't issued regulations explaining them.

According to state-tax specialist Jamie Yesnowitz of Grant Thornton, at least 21 states have SALT workarounds for the 2022 tax year, including New York, California and Illinois. Several other states are considering it in 2022 legislative sessions. Mr. Yesnowitz notes that the workarounds reduce state taxes on business income but not on wages, investment income or property.

In January 2022, The Wall Street Journal reported that New York business owners were using the workaround to bypass billions of dollars in federal taxes.

Mortgage-Interest Deduction

The expansion of the standard deduction and a lower limit on deductible mortgage debt mean fewer filers are taking this popular write-off

The number of taxpayers claiming mortgage interest deductions on Schedule A has dropped sharply since the 2017 tax overhaul enacted both direct and indirect curbs on them. For 2019, about 13 million filers claimed the deduction vs. about 33 million for 2017, according to the latest IRS data.

A key reason for the change: Millions more filers are claiming the expanded standard deduction rather than itemizing write-offs separately on Schedule A. For example, a married couple won't benefit from itemizing if their mortgage interest, state and local taxes and charitable contributions total less than their standard deduction amount of $25,100 for 2021 or $25,900 for 2022.

In addition, Congress in 2017 imposed new limits on the amount of mortgage debt that new purchasers can deduct interest on.

LIMITS ON ELIGIBLE MORTGAGE DEBT

Limits apply for taxpayers taking mortgage-interest deductions, and they are more generous for homeowners with older mortgages.

Homeowners with existing mortgages taken out on or before Dec. 15, 2017 can continue to deduct interest on a total of $1 million of debt for a first and second home. For mortgages issued after Dec. 15, 2017, homeowners can deduct interest on a total of $750,000 of debt for a first and second home. These limits aren't indexed for inflation.

Here's an example. If John had a $750,000 mortgage on a first home and a $200,000 mortgage on a second home as of Dec. 15, 2017, he can continue to deduct the interest on both loans on Schedule A. But if he bought one home with a $750,000 mortgage in 2015 and then bought a second home with a $200,000 mortgage in 2020, he can't deduct the interest on the second loan.

Mortgage-Interest Deduction

MORTGAGE REFINANCING

Homeowners can refinance mortgage debt up to $1 million that existed on Dec. 15, 2017 and still deduct the interest. But often the new loan can't exceed the amount of the mortgage being refinanced.

Here's an example provided by Evan Liddiard, a CPA with the National Association of Realtors: If Emily has a $1 million mortgage she has paid down to $800,000, she can refinance up to $800,000 of debt and continue to deduct interest on it. If she refinances for $900,000 and uses $100,000 of it to make substantial improvements to the home, she could deduct the interest on $900,000, according to Mr. Liddiard.

But if Emily refinances for $900,000 and uses $100,000 to pay her children's tuition, rather than home improvements, then she can deduct interest on only $800,000 of the refinancing.

HOME-EQUITY LOANS AND LINES OF CREDIT (HELOCS)

The law now prohibits interest deductions for such debt unless the funds are used for certain types of home improvements. Before 2018, homeowners could deduct the interest on up to $100,000 of home-equity debt used for any purpose.

To be deductible now, the borrowing must be used to "buy, build or substantially improve" a first or second home. The debt must also be secured by the home it applies to, so a Heloc on a first home can't be used to buy or expand a second home.

For more information and a list of improvements that are eligible, see IRS Publications 936 and 523.

Charitable-Donation Deduction

For 2021, but not 2022, taxpayers who don't itemize on Schedule A can deduct some charitable donations

During the pandemic, Congress temporarily expanded tax deductions for charitable donors. This expansion expired at the end of 2021.

For 2021, single filers who don't itemize deductions on Schedule A can deduct up to $300, and married joint filers can deduct up to $600.

These donations must be of cash—such as by check, credit card or similar transfer—rather than property such as used clothing or furniture, and they can't be made to donor-advised funds. As with other donations, the gifts had to be made by year-end to be deductible for 2021.

For 2021, those who don't itemize can deduct

$300

Single Filers

$600

Married Joint Filers

The normal rules for proving these write-offs apply as well. Often the donor needs a letter in hand from the charity detailing the deduction before filing his or her tax return.

Also for 2021, most donors of large amounts can immediately deduct cash gifts up to 100% of their adjusted gross income. Absent this provision, the AGI limit would be 60% for cash donations and lower for others such as appreciated stock, although excess deductions could carry over for use in future years.

The $300/$600 deductions for non-itemizers respond to charities' concerns following the 2017 tax overhaul. While it didn't limit charitable deductions outright, the near-doubling of the standard deduction has meant that far fewer taxpayers now benefit from a specific break for charitable giving.

Charitable-Donation Deduction

According to the most recent IRS data, the number of taxpayers itemizing charitable donations dropped to about 13 million for 2019 from about 37 million in 2017.

Still, donors who want to maximize tax deductions for donations have options for doing so.

A simple one is to "bunch" donations every few years to get over the hurdle of the higher standard deduction. For example, say that Jane and Robert typically donate $10,000 per year to charity, but they've paid off their mortgage and their SALT deduction is now capped at $10,000.

As a result, taking the 2021 standard deduction of $25,100 still makes more sense for the couple than itemizing deductions on Schedule A—and they would get that deduction without making any donations.

DONATION STRATEGY

Donors who want to maximize tax deductions for donations have options. One is to "bunch" donations every few years to get over the hurdle of the higher standard deduction.

But say that Jane and Robert instead donate $20,000 every other year rather than $10,000 every year. The larger donation plus their $10,000 SALT deduction means it makes sense to itemize for the years they make donations and then claim the standard deduction for the other years.

Another valuable strategy for givers is to donate appreciated investments held longer than a year, such as stock shares or cryptocurrencies. In this case the donor can receive a deduction for the asset's fair market value without owing tax on the appreciation, although conditions apply. For example, crypto owners need a formal appraisal if they want to deduct a donation of more than $5,000 of cryptocurrency.

Charitable-Donation Deduction

Charitable givers using these strategies may want to consider so-called donor-advised funds. These popular accounts enable donors to bunch smaller gifts into one large amount and take a deduction in the year of the gift. The donor then recommends later which charities will be recipients of gifts. Meanwhile, the assets can be invested and grow tax-free, although the accounts have fees.

Donors who are 70½ or older have another good strategy if they have individual retirement accounts. Many can benefit from contributing up to $100,000 of IRA assets directly to one or more charities, as noted in Retiree Tax Issues.

For more information, see IRS Publication 526, Charitable Contributions.

Medical-Expenses Deduction

The income threshold for deducting medical expenses is 7.5%

In 2020, Congress enacted a permanent threshold for taking deductions for medical expenses. Filers can deduct eligible expenses only to the extent that they exceed 7.5% of their adjusted gross income.

7.5%
Income threshold above which medical expenses are deductible

Relatively few taxpayers benefit from this write-off because their deductible expenses don't exceed the threshold. But it covers a wide range of unreimbursed costs when it does apply and it is valuable to filers with large medical expenses such as nursing-home costs. Other eligible costs include insurance premiums paid with after-tax dollars, acupuncture, menstrual products, prostheses, eyeglasses, and even a wig if needed after chemotherapy, among other things. This deduction is only available to taxpayers who itemize.

For more information and a detailed list of eligible expenses, see IRS Publication 502.

Retirement-Savings Accounts

The contribution limit for some accounts is higher for 2022

To encourage saving for retirement, Congress has provided Americans with an array of tax-favored accounts. Some, such as 401(k) and 403(b) accounts, are sponsored by employers. Others, including most individual retirement accounts, are owned and funded by individuals. Still others, such as Solo 401(k)s, are for self-employed workers.

These accounts typically have annual limits on contributions and often income-eligibility requirements, as well. Savers or their spouses also must have at least as much earned income—such as from wages, not investments–as the amount of the contribution to them. Other limits can apply.

In addition, tax-favored savings plans have restrictions as to when money in these accounts *can* be withdrawn and when it *must* be withdrawn, for the saver to avoid penalties. For example, withdrawals before age 59 ½ are often subject to a 10% penalty if the saver received a tax deduction on contributions to the account.

Assets within retirement accounts typically grow tax-deferred, but other features vary according to the type of account. Contributions to traditional IRAs and 401(k) plans are often tax-deductible, and withdrawals are taxed at the same rates as ordinary income like wages—not the lower rates for long-term capital gains.

With Roth IRAs and Roth 401(k)s, the opposite is the case: Contributions aren't tax-deductible going in, but withdrawals can be tax-free. Roth accounts can be a good choice for savers who expect their tax rate to be lower when contributions are made than when they are withdrawn.

For both 2021 and 2022, the limit on contributions to traditional IRAs and Roth IRAs remains $6,000, plus $1,000 for those age 50 and above. Currently there is no age cap for individuals contributing to traditional IRAs.

Retirement-Savings Accounts

The limit on contributions to regular 401(k) and Roth 401(k) plans is higher. For 2021, it is up to $19,500 per worker, plus $6,500 for those age 50 and older. For 2022, it is $20,500 due to an inflation adjustment, plus $6,500 for savers age 50 and older.

For 2021, the limit on contributions to SEP IRAs and Solo 401(k) plans is $57,000, plus $6,500 for Solo 401(k) plans for people who are age 50 and above. For 2022, the limit has risen to $61,000, plus $6,500 for Solo 401(k) plans for those 50 and above.

For more information IRA contributions, see IRS Publication 590-A.
For more information on IRA withdrawals, see IRS Publication 590-B.

The deadline for contributing to traditional IRAs and Roth IRAs is the April tax deadline of the following year. So most savers have until April 18, 2022 to make contributions for 2021.

In many cases, savers with SEP IRAs and Solo 401(k)s can make contributions for 2021 until Oct. 17, 2022 if they have an extension to file their returns.

ROTH IRA CONVERSIONS

Savers can convert all or part of a traditional IRA to a Roth IRA, but they will owe income tax on the transfer. This switch can make sense for people who expect their future tax rates to be higher than their current tax rate, especially if they will pay the taxes due on the transfer of funds outside the account. Future tax-free withdrawals from the Roth accounts won't push the saver into a higher tax bracket or trigger higher Medicare premiums.

"The deadline for contributing to traditional IRAs and Roth IRAs is the April tax deadline of the following year."

Retirement-Savings Accounts

Savers can no longer undo a Roth conversion by “recharacterizing” it later.

INHERITED IRAS

Because of a law change, heirs of Roth or traditional IRAs whose original owners died after Dec. 31, 2019 must now empty the accounts within 10 years. Annual payouts aren’t required during this period.

The law has exceptions to the 10-year payout for some heirs, including surviving spouses. They can continue to stretch required payouts—and taxes on them—over many years. For minor children of the deceased IRA owner, the 10-year withdrawal period often begins when they reach the age of majority, which is 18 in most states. Students may be able to delay the 10-year period up to age 26.

For more information, see IRS Publication 590-B.

If the original owner died before 2020, the heirs can often take required withdrawals over many decades, a technique known as the Stretch IRA.

Flexible Spending Accounts and The Dependent-Care Credit

The pandemic prompted Congress to loosen the rules for workers who use pretax dollars to pay for certain healthcare and dependent-care expenses.

Flexible spending accounts (FSAs) are employer-sponsored plans that allow workers to set aside pretax dollars to pay certain unreimbursed expenses.

Funds in healthcare FSAs are for healthcare expenses such as glasses, over-the-counter medication, menstrual-care products, or a wig after chemotherapy. Funds in dependent-care accounts can reimburse parents for after-school programs or summer camp, among other things. Workers' contributions to FSAs aren't subject to federal payroll taxes, or in many cases, state taxes.

For healthcare FSAs, the limit per employee for 2021 was $2,750, so a couple could put up to $5,500 if plans were offered by both employers. For 2022, that limit rises to $2,850.

For dependent-care FSAs, the limit is usually $5,000 per family, with no adjustment for inflation, and other requirements may apply if one spouse has little or no earned income.

Just for 2021, Congress raised the limit for dependent-care accounts to $10,500 because of the pandemic, and it also raised the child's age limit from 12 to 13 for claiming reimbursements from these accounts. For workers to make use of these changes, company plans usually had to opt into them.

Even with higher limits, however, many workers didn't increase dependent-care FSA contributions for 2021 due to pandemic uncertainties. For example, some worried whether their daycare provider would remain open, while others were able to work from home and needed less child care or none.

Flexible Spending Accounts and The Dependent-Care Credit

Many other dependent-care FSA participants didn't use all the money in their accounts. In response, Congress allowed workers to carry over unused funds from 2021 to 2022, or for up to 12 months for companies with plans on fiscal years.

CHILD- AND DEPENDENT-CARE TAX CREDIT

The tax code has a credit for dependent-care expenses for children under age 13 when the care was provided, and it also can apply to expenses for others of any age who are incapable of caring for themselves—such as an elderly relative.

In most years—including 2022—many filers get a credit for 20% of up to $3,000 of eligible expenses for one dependent, or up to $6,000 of expenses for two or more. For very low earners, the credit can be as high as 35% of these expenses.

> **"For middle-and upper-earning parents whose marginal rate is above 15%, funding a dependent-care FSA often lowers taxes more than the child-care credit."**

Melissa Labant, a tax principal with CLA, says that for middle- and upper-earning parents whose marginal tax rate is above 15%, funding a tax-deductible dependent-care FSA often lowers taxes more than the child-care credit. After maxing out their FSAs, these parents can then claim the tax credit for care expenses that exceed their FSA reimbursements. (No double-dipping is allowed.)

Just for 2021, however, Congress greatly expanded the child- and dependent-care credit by raising the credit's top rate to 50% and increasing the allowed expenses to $8,000 for one dependent and $16,000 for two or more. It also made this credit refundable, so filers can receive a payment even if they don't owe income taxes. The expansion often applies to expenses for care of non-child dependents as well.

Flexible Spending Accounts and The Dependent-Care Credit

The 2021 benefit has a complex phaseout and ends at $438,000 for most married joint filers, so it will increase dependent-care benefits for a range of taxpayers.

For example, say that an office worker incurred $12,000 of eligible child-care expenses for two young children last year. But she only put $2,000 in her company's dependent-care FSA, fearing the day-care center would close due to the pandemic.

In this case, says Ms. Labant, this worker could receive $2,000 of reimbursements from the 2021 FSA plan and then take the dependent-care tax credit on the remaining $10,000 of expenses, rather than on $4,000 as in other years. The expanded credit could reduce the worker's 2021 taxes by up to $5,000, depending on income.

For more information, talk to your employer and see IRS Publication 503.

Home-Sellers’ Exemption

This popular benefit ensures that most homeowners don’t owe tax on the sale of their home

Married couples filing jointly can exclude up to $500,000 of net profit on the sale of a primary home from taxes. For single filers, the exemption is $250,000. These amounts aren’t indexed for inflation.

For example, say that a married couple bought a home many years ago for $120,000 and later made $100,000 of improvements. This year, they sell the home for $600,000.

The gain, or profit, on the sale is $380,000. All of it would be exempt from capital-gains tax due to their $500,000 exemption.

To be eligible for this benefit, the homeowner typically must have used the house as a primary residence for two of the previous five years. In general, taxpayers aren’t eligible for the full exemption if they excluded the gain from the sale of another home during the two years before the sale.

Surviving widows and widowers have until two years after the spouse’s date of death to sell and qualify for the $500,000 exemption rather than a $250,000 benefit, as long as the survivor hasn’t remarried. The survivor will also likely get a “step-up” in cost basis on half of the home’s value (in most states) or all of the home’s value (in community-property states). This will lower capital-gains taxes on the home sale, if any are owed.

Other limits and exceptions apply, such as for military personnel or the sale of a primary home that previously was used as a second home. Many more details on this exemption are here.

Also see IRS Publication 523, Selling Your Home.

Other Deductions, Such as For Home Offices and Schoolteachers

Taxpayers can't deduct a range of expenses that were once allowed, such as for a home office used by an employee working remotely

The 2017 tax overhaul disallowed many miscellaneous deductions that taxpayers claimed on Schedule A. These changes generally expire at the end of 2025.

As a result, employees can't deduct their home-office expenses—a benefit that would be useful to millions still working at home. (Business owners can still take deductions for home offices.)

However, employers can receive a tax benefit from reimbursing remote workers for a range of costs. If a firm reimburses its staffers for, say, office equipment or faster internet they need for their work, the company can likely deduct the costs on its own tax return.

> "Also suspended is the deduction for investment-advisory fees, which affects many investors."

Other miscellaneous deductions repealed until 2026 include write-offs for unreimbursed expenses for employee travel, meals and entertainment; union dues; safe-deposit box fees; tax-preparation fees; and subscriptions, among others.

Also suspended is the deduction for investment-advisory fees. This change affects investors who pay fees for advice based on a percentage of their assets, including many with tax-efficient separately managed accounts. It can also apply to investors in hedge funds or other funds structured as partnerships, if they owe tax on profits before fees are deducted.

Other Deductions, Such as For Home Offices and Schoolteachers

Under prior law, many taxpayers found the deduction for miscellaneous expenses hard to qualify for, because total eligible expenses had to exceed 2% of adjusted gross income.

Also on Schedule A, lawmakers curtailed the deduction for most casualty and theft losses other than from federally declared disasters. Some other itemized deductions are still allowed, such as for certain gambling losses. They are listed in the instructions for Schedule A.

Elsewhere on the return, Congress ended the deduction for moving expenses by taxpayers who aren't in the military. However, educators can deduct unreimbursed expenses for classroom supplies, even if they don't itemize on Schedule A. The deduction is for up to $250 of expenses for 2021, and up to $300 for 2022.

Tax Breaks for Education

The Lifetime Learning Credit has been expanded and the tuition and fees deduction has been repealed

Late in 2020, Congress permanently repealed the longstanding tuition and fees deduction, beginning in 2021, and expanded the Lifetime Learning Credit. It and the American Opportunity Credit are now the principal tax credits for education.

For 2021 and beyond, both credits now have the same income phaseout range: $80,000 to $90,000 of adjusted gross income for most single filers, and $160,000 to $180,000 for most married couples filing jointly. These limits aren't adjusted for inflation.

But they apply differently. The American Opportunity Credit provides a maximum tax reduction of $2,500 per student per year, which is composed of 100% of the first $2,000 of eligible expenses and 25% of the next $2,000. In general, it is available for the first four years of postsecondary education, and it applies to tuition and course-related expenses, not room and board.

> "The American Opportunity Credit provides a maximum tax reduction of $2,500 per student per year."

The Lifetime Learning Credit is typically less generous, but applies to a broader range of education expenses. It is a tax offset of 20% of up to $10,000 of eligible expenses, or up to $2,000 per taxpayer per year. It can be used not only for undergraduate education but also for graduate education, continuing education, and jobs-skills classes even if the skills aren't related to current employment.

A taxpayer can't claim more than one of these credits for the same student per year.

For more information, see IRS Publication 970.

Tax Breaks for Education

DEDUCTION FOR STUDENT-LOAN INTEREST

Taxpayers with student-loan interest can typically deduct up to $2,500 of it a year. This limit applies per tax return, so it is the same both for singles and for married couples filing jointly. For tax year 2021, the deduction phases out beginning at $70,000 of adjusted gross income for most single filers and $140,000 for most married joint filers. For 2022, the phaseout begins at $70,000 for most single filers and $145,000 for most married joint filers. (The reason for the difference between years in the phaseout level for married joint filers is due to inflation-adjustment methodology.)

In 2017, Congress made an important change for people with student loans who die or become disabled: Forgiveness of such debt due to death or disability is no longer taxable. In 2021 pandemic legislation, lawmakers also said forgiveness of student loans wouldn't be taxable through 2025. These provisions expire at the end of 2025.

529 Education-Savings Accounts

These plans can be used to pay up to $10,000 of private school tuition and up to $10,000 of student-loan debt, but clarifications are needed in some states

Named after a section of the tax code enacted more than two decades ago, 529 accounts allow savers to contribute dollars after federal taxes have been paid on them. The assets then can be invested and grow free of federal and state taxes.

Withdrawals from these accounts are tax-free if they are used to pay eligible education expenses such as college tuition, books, and often room and board.

$10,000
Amount from a 529 account that may be used to pay student-loan debt

These plans are popular with middle- and upper-income families. Assets in 529 plans grew to $464 billion in June 2021 versus $165 billion a decade earlier, according to Mark Kantrowitz, a college-savings specialist.

Most 529 plans are offered by states, and nearly all states and the District of Columbia have them. More than 30 states offer a tax break for contributions, according to Mr. Kantrowitz. Savers dissatisfied with their own state's investment offerings or fees can go elsewhere, although investment options are limited in most plans.

PAYING FOR K-12 EDUCATION

Since 2018 Congress has allowed 529 plan assets to be used to pay up to $10,000 per student, per year, for tuition for K-12 students. This change provides more flexibility to savers with 529 plans.

Private schools will likely want to know about families' 529 savings and may take that information into account when making financial-aid decisions. Those who want to use this break should also check carefully to make sure these withdrawals are approved for their specific 529 plan, as some don't allow them.

529 Education-Savings Accounts

USING 529 ASSETS TO PAY STUDENT LOANS

Parents and others with 529 education-savings accounts are now able to take tax-free withdrawals for repayments of some student loans for each beneficiary and beneficiary's siblings. There is a lifetime limit of $10,000 per borrower. Not all states have adopted this rule, and a 529 payout for student debt may incur state tax.

In addition, some costs for apprenticeships are eligible for tax-free withdrawals from 529 accounts.

TRANSFERS TO '529 ABLE' ACCOUNTS

In another significant change in 2017, Congress enabled savers to transfer funds from 529 plans to 529 ABLE accounts. ABLE accounts are for people who became blind or disabled before age 26, and they don't limit the person's access to Medicaid and Supplemental Security Income (SSI) benefits or federal student aid.

Like 529 plans, 529 ABLE accounts allow assets to grow tax-free. Annual contributions are capped at $15,000 for 2021 and $16,000 for 2022. Withdrawals can be tax-free if used to pay expenses such as housing, legal fees and employment training. Total assets in an account can reach $100,000 without affecting SSI benefits.

The 2017 change allows annual transfers—$15,000 for 2021 and $16,000 for 2022—from a regular 529 plan to a 529 ABLE account. The ability to make such transfers avoids a significant drawback.

It is that after the disabled person's death, remaining funds in an ABLE account typically go to the state to repay benefits if the person was receiving Medicaid—as many are. But under current rules, someone could fund a 529 account for a disabled person and transfer money from it as needed to a 529 ABLE account, according to Mr. Kantrowitz. This arrangement offers tax-free growth and perhaps a state-tax deduction, without giving up ownership of assets.

Owners of 529 and 529 ABLE accounts who want to use this benefit should check their state plans to make sure it is allowed.

Section 3

Beyond the Basics

Retiree Tax Issues

Congress suspended required payouts from retirement accounts for 2020, but it hasn't done so for 2021

STANDARD DEDUCTION

The near-doubling of the standard deduction has been positive for many retirees. For single filers it is $12,550 for 2021 and $12,950 for 2022, while for married couples filing jointly it is $25,100 for 2021 and $25,900 for 2022. The expanded standard deduction expires at the end of 2025.

The standard deduction is the amount taxpayers deduct if they don't list write-offs for state taxes, charitable donations, mortgage interest and such on Schedule A. Many retirees who have paid off their mortgages take the standard deduction.

Moreover, an "additional standard deduction" continues to apply for taxpayers age 65 and older. For single filers, it's $1,700 for 2021 and $1,750 for 2022. For married couples filing jointly, it's $1,350 for 2021 and $1,400 for 2022 for each spouse age 65 and older.

ADDITIONAL STANDARD DEDUCTION

People age 65 and older are eligible to take the additional standard deduction.

FOR 2022:

- $1,750 for singles
- $1,400 for each partner of a married couple

IRA WITHDRAWALS

Due to the pandemic, Congress suspended required minimum distributions from retirement accounts such as traditional IRAs for 2020, but lawmakers didn't pass a similar measure for 2021. This change must be made by Congress, not the IRS. Under current law, Roth IRA owners don't have required annual payouts.

For people born after June 30, 1949, required minimum payouts from these accounts begin in the year they turn 72, while savers born on or before that date had to begin withdrawing at age 70 ½.

Required withdrawal amounts are based on the account's value as of the prior Dec. 31. Savers have until the following April 1 to make their first required withdrawal, but advisers often discourage waiting because then the saver will have two required withdrawals in the second year, possibly pushing him or her into a higher tax bracket.

For all years after the first, required withdrawals must be made by year-end.

For 2022 and later years, the IRS has updated the life expectancy tables used to calculate withdrawals. The revised tables typically assume longer lifespans, resulting in lower required payouts.

For more information on required withdrawals, see IRS Publication 590-B.

IRA CHARITABLE TRANSFERS

This popular benefit allows retirees who are 70½ or older to donate IRA assets up to $100,000 directly to one or more charities and have the donations count toward their required annual payout.

For IRA owners who give to charity, this is often a tax-efficient move. Donors can take the standard deduction and still receive a tax break for their giving.

While there is no deduction for gifts of IRA assets, the withdrawal doesn't count as taxable income. This can help reduce Medicare premiums that rise with income and taxes on other investment income, among other things. However, these transfers can't be made to a donor-advised fund.

Givers should also make sure they account for the charitable transfer on their tax return. IRA sponsors such as brokers and banks typically record the gross withdrawal on the 1099-R, not the net amount after the donation.

For Widows and Widowers

The loss of a spouse often leaves the survivor facing confusing tax issues

The death of a spouse often combines emotional upheaval with the need to make key decisions and deal with tax complexities. Here are issues to consider.

FILING AN ESTATE-TAX RETURN

Executors don't need to file a return if the decedent's estate is below the total lifetime exemption for taxable gifts made during life and assets left at death. This exemption was $11.7 million per individual for 2021 and is $12.06 million for 2022.

They may want to file one, however, as the surviving spouse can often add the partner's unused exemption to their own. This could help if Congress lowers the gift- and estate-tax exemption in the future.

Estate taxes are normally due nine months after the date of death. But the IRS allows executors to claim the unused exemption for the spouse up to two years after the date of death, in many cases.

TAX-BRACKET SHIFTS

The year of death is the last one for which a couple can file jointly. After that, the survivor files either as a single person or, if there are dependent children, as a surviving widow or widower. Surviving widow(er)s retain the benefits of joint filing for up to two years after the year of the spouse's death, and then they typically file as head of household.

Surviving spouses should be aware that even if their income drops, their top tax rate may not drop—and could even rise—as a result of shifting from joint-to single-filing status. Some call this "the widow's penalty."

For example, say that a couple had $225,000 of taxable income and a top tax rate of 24% for 2021. If one spouse died last year and the survivor has $180,000 of taxable income this year, he or she will face a top tax rate of 32% for 2022 even with about 20% less income.

For Widows and Widowers

Suggestion: Consider accelerating income, such as from asset sales, while joint-filing rates and brackets are still available. If income drops in the year of death, say because of large medical-expense deductions, that could provide more room for acceleration.

THE STEP-UP

Under current law, the estate of someone who dies with assets held outside retirement accounts—such as a home, stocks or a business—typically doesn't owe tax on their appreciation. When heirs sell these assets, they owe tax only on growth after the original owner's death. This valuable resetting of the cost basis, which is the starting point for measuring capital gains, is called the "step-up." (See also the section on Estate and Gift Tax.)

In most states, jointly held assets such as a home or investment account receive a 50% step-up after one partner dies. So if a couple bought a house for $200,000 that is worth $1.1 million when the first spouse dies, the home's cost basis rises from $200,000 to $650,000—$100,000 for the survivor's original cost plus $550,000 of step-up for the decedent.

In nine states with community property laws, the step-up on jointly owned assets resets the basis to 100% of fair market value after the first spouse's death.

Surviving spouses will want to take the step-up into account when selling assets because a lower gain typically brings a lower tax bill.

THE HOME-SELLERS' EXEMPTION

Survivors who plan to sell their home should watch the calendar. Married joint filers get to skip tax on up to $500,000 of appreciation when they sell their home, and widows and widowers also get the $500,000 break if they haven't remarried and sell within two years of the partner's date of death.

If they sell later, the exemption often drops to $250,000, the amount for single filers.

RETIREMENT ACCOUNTS

Surviving spouses can roll over inherited retirement accounts such as 401(k)s and IRAs into their own names, and financial advisers routinely recommend this move.

But it may not always be smart. For example, if the survivor is under age 59 ½ and will need to draw on an account, then rolling it over could bring a 10% penalty on payouts. While there is no deadline for doing a spousal rollover, often there is no reversing one once it is made.

New widows and widowers should consider their options carefully. It is possible to divide retirement accounts such as IRAs and then roll over some but not all assets into the survivor's name. This would leave the remainder in an inherited IRA available for penalty-free payouts to a surviving spouse.

Heirs of these accounts who will face higher taxes as single filers may also want to convert assets to Roth IRAs, which can have tax-free withdrawals—especially if they can convert while eligible for joint-filing rates and brackets.

WITHHOLDING AND ESTIMATED TAXES

In general, filers must send the IRS 90% of their total tax for the year by Dec. 31 or soon after, and often this amount is divided unequally between spouses. If the partner who died paid most of the withholding or estimated taxes, the survivor may need to make changes or risk underpayment penalties at tax time—especially if the spouse's death was early in the year.

The ‘Kiddie Tax’

This provision can raise the tax rate on children’s unearned income

The “Kiddie Tax” is a levy on a child’s unearned income above $2,200 for 2021 and $2,300 for 2022. Above the exemption, that income is taxed at the parents’ rate.

This tax typically applies to investment income such as dividends, interest, and capital gains, although it can also apply to taxable financial aid for education and certain other payouts, such as a taxable survivor’s benefit. It doesn’t apply to a young person’s earned income, such as from mowing lawns or designing websites.

Congress passed the Kiddie Tax in 1986 to prevent wealthy or affluent people from taking advantage of their children’s lower tax rates by shifting income-producing assets to them. Today, the tax applies to nearly all children under 18 and many who are under 24, if they are full-time students and aren’t self-supporting.

The 2017 tax overhaul simplified the Kiddie Tax by making a youngster’s unearned taxable income subject to trust tax rates rather than the parents’ income-tax rate. But the unanticipated result of the change was that, while the tax was often lower or the same for children of high-income parents, it often rose sharply for children of parents in lower tax brackets.

In 2019, Congress restored prior law for 2020 and beyond—a fact that generous parents, grandparents and others should be aware of.

Alternative Minimum Tax

This levy affects far fewer taxpayers than it once did, although prior rules are set to return in 2026

> "The alternative minimum tax, or AMT, applied to 170,000 filers for 2019 vs. five million for 2017."

Congress's changes to the tax law in 2017 greatly lessened the impact of the alternative minimum tax, or AMT, a parallel tax system that is complex and often seems arbitrary. However, these changes are scheduled to expire at the end of 2025.

The purpose of the AMT is to limit tax breaks allowed by the regular tax system and ensure that higher earners can't legally avoid all taxes. The 2017 tax-changes reduced or repealed several key AMT triggers, such as state and local tax deductions, personal exemptions and miscellaneous deductions. The AMT exemption was also expanded as part of the 2017 changes.

As a result, the AMT now applies to far fewer taxpayers than it once did—170,000 filers for 2019 vs. five million filers for 2017 before the law change, according to the latest IRS data.

Tax specialists say the breaks triggering the AMT now are likely to be more unusual items such as incentive stock options, interest from certain municipal bonds and net operating losses.

Alimony

Alimony is losing favor with divorcing couples

In 2017, Congress made a major, permanent change to the tax status of alimony payments. As a result, payers can't deduct alimony on their federal tax returns for divorce and separation agreements signed after 2018.

At the same time, alimony recipients no longer have to report these payments as income, making the tax treatment of them similar to that of child support.

Deductions are still allowed for alimony paid as a result of agreements signed in 2018 and before, and such payments will still be taxable to the recipients.

Before the law changed, alimony—also called maintenance—was often used when one spouse of a divorcing couple earned far more than the other. Alimony was deductible at the payer's higher rate, and taxed at the recipient's lower rate, creating what was known as the "IRS divorce subsidy." Payments typically continued for a period of years and helped defray the expenses of splitting one household into two.

Elena Karabatos, a divorce attorney with Schlissel Ostrow Karabatos, says that in many cases the 2017 changes to the tax treatment of alimony can result in reduced cash-flow for both spouses and lead to lower alimony payments to the lower-earning spouse.

Section 4
For First-Time Taxpayers

For First-Time Taxpayers

If you're filing for the first time this year, congratulations! You've arrived. Welcome to the strange, confusing world of U.S. income taxes.

You're joining more than 200 million Americans each year who gather forms, face complex calculations, and file an income-tax return with the Internal Revenue Service by the April due date, which is April 18 for most taxpayers this year.

You'll likely be filing income taxes for a long time, so here are answers to basic questions.

TIP
Use the IRS calculator to adjust your withholdings.

HOW MUCH MONEY CAN I EARN BEFORE I OWE FEDERAL INCOME TAXES?

The short answer is $12,550 for 2021 and $12,950 for 2022.

That is the "standard deduction" for most single people for these years. For most married couples it doubles to $25,100 for 2021 and $25,900 for 2022.

With taxes, a deduction is something everyone wants. Deductions are amounts subtracted from income the government taxes you on, so having them lowers your tax bill.

People can either list key deductions for items such as state taxes or charitable donations on a special form known as Schedule A or they can skip that process and choose the standard deduction. This year about 90% of filers will opt for the standard deduction because it will save them more.

Often the tax threshold is higher than the standard deduction, however. People paying student-loan interest get a special deduction of up to $2,500 for such interest per return. So a single person taking it for 2021 could earn up to $15,050 before owing tax.

For First-Time Taxpayers

Workers who contribute to retirement accounts like a traditional IRA or 401(k) can raise their nontaxable amount by $6,000 or more. Taxpayers can also qualify for credits that reduce their actual taxes rather than just their income.

WHAT ARE THE RATES ON TAXABLE INCOME?

For now they range from a low of 10% to a high of 37%. (See Income-Tax Rates and Brackets section.) The rates phase in as income rises, so 10% applies to the first slice of income, 12% applies to the second slice, 22% applies to the third slice, and so on. State or local income taxes are on top of that.

OK, SO WHY DID THE COMPANY THAT PAID ME A PITTANCE FOR AN INTERNSHIP TAKE OUT SO MUCH FOR TAXES?

The answer is withholding—and it has nothing to do with emotional style. The U.S. tax system is pay-as-you-earn. Employers usually must send part of each worker's paycheck to the government so the workers don't have to cope with a big bill at tax time. These payments are called withholding.

TIP
Scholarships that are used to pay for tuition, fees and textbooks are usually tax-free.

To be safe, your employer may have withheld more income taxes than you'll actually owe. In that case, you get this extra bit back by filing a tax return and claiming a refund.

Meanwhile, you may be able to adjust your withholding and get higher take-home pay by filling out an IRS Form W-4 and giving it to the business. There is a useful IRS calculator for this.

But beware of withholding too little. The law requires most filers to pay 90% of the income tax they owe before year-end or soon after, or face penalties.

Also, check your pay stub. Maybe the withholding is mostly for Social Security and Medicare taxes, not income taxes.

WHY ARE MY SOCIAL SECURITY AND MEDICARE TAXES SO HIGH?

Lower earners often owe more for these social-insurance taxes than for income tax, because they can kick in on the first dollar of pay.

For example, the Social Security and Medicare tax on the first $12,550 of pay for a single employee in 2021 comes to $960, while the federal income tax on it can be $0 due to the standard deduction.

The Social Security tax is a flat 6.2% per employee, plus 6.2% paid by the employer, on the first $142,800 of wages for 2021 and $147,000 for 2022. Employees don't see the employer's share on their pay stub. The Medicare tax is 1.45% each for the employer and the employee, and it applies to all pay.

Higher earners also owe a Medicare-tax surcharge of 0.9% on earned income such as wages above $200,000 for most single filers and $250,000 for most married joint filers—amounts that aren't indexed for inflation.

People who are self-employed, such as gig workers and business owners, can owe even more in these taxes. More on this below.

HOW ARE EDUCATION SCHOLARSHIPS AND STIPENDS TAXED?

Scholarships that are used to pay for tuition, fees and textbooks are usually tax-free if the student is pursuing a degree or certificate. Tuition waivers for graduate student teaching and research are often tax-free as well.

For First-Time Taxpayers

HOW DO I FILE MY TAXES IF I DON'T HAVE A PERMANENT ADDRESS, OR IF I LIVED IN SEVERAL STATES IN THE PAST YEAR?

The IRS communicates with people by mail, so it needs a mailing address for each filer. If you don't have someone you trust to accept mail, consider a post office box.

Note that refund checks can be deposited directly to financial accounts. They don't have to be sent to the address on the tax return. Workers who lived in more than one state during the year should check with each state to see if they need to file state returns there.

TIP
Gig workers owe higher Social Security and Medicare taxes because they owe both the employer and employee portion of these taxes, although they get a deduction for part of it.

I'M A GIG-ECONOMY WORKER. ARE MY TAXES DIFFERENT?

So different! This is a vast topic discussed in the section for business owners, but here's a quick outline.

If you're paid for work, but you aren't a business's employee, then you're "self-employed." Businesses that hire you likely won't withhold taxes from your pay, even if they pay you regularly. You'll be responsible for paying estimated taxes quarterly, but you'll also likely be able to deduct business expenses that employees can't.

And you will likely owe higher Social Security and Medicare taxes because gig workers owe both the employee and the employer portion of these taxes, although they get a deduction for part of it.

Advice for gig workers: Take your taxes seriously now, not later. The penalties for getting them wrong can be severe, and the IRS can be relentless. Consider asking a tax professional to outline the obligations, traps and benefits you're facing, even if you do your own taxes. Always, always keep good records.

For First-Time Taxpayers

WHAT'S THE CHEAPEST WAY TO DO MY TAXES?

Get ready to do research.

In theory, more than 100 million filers earning below $73,000 for 2021 have access to free online tax prep provided by commercial firms through an IRS program known as Free File.

You can find that program here.

Yet less than 5% of eligible taxpayers use Free File to prepare their returns, leading to charges that some firms made it difficult on purpose. Changes were made so Free File would be less confusing, but both H&R Block and Intuit, the maker of TurboTax, have since withdrawn from the Free File program.

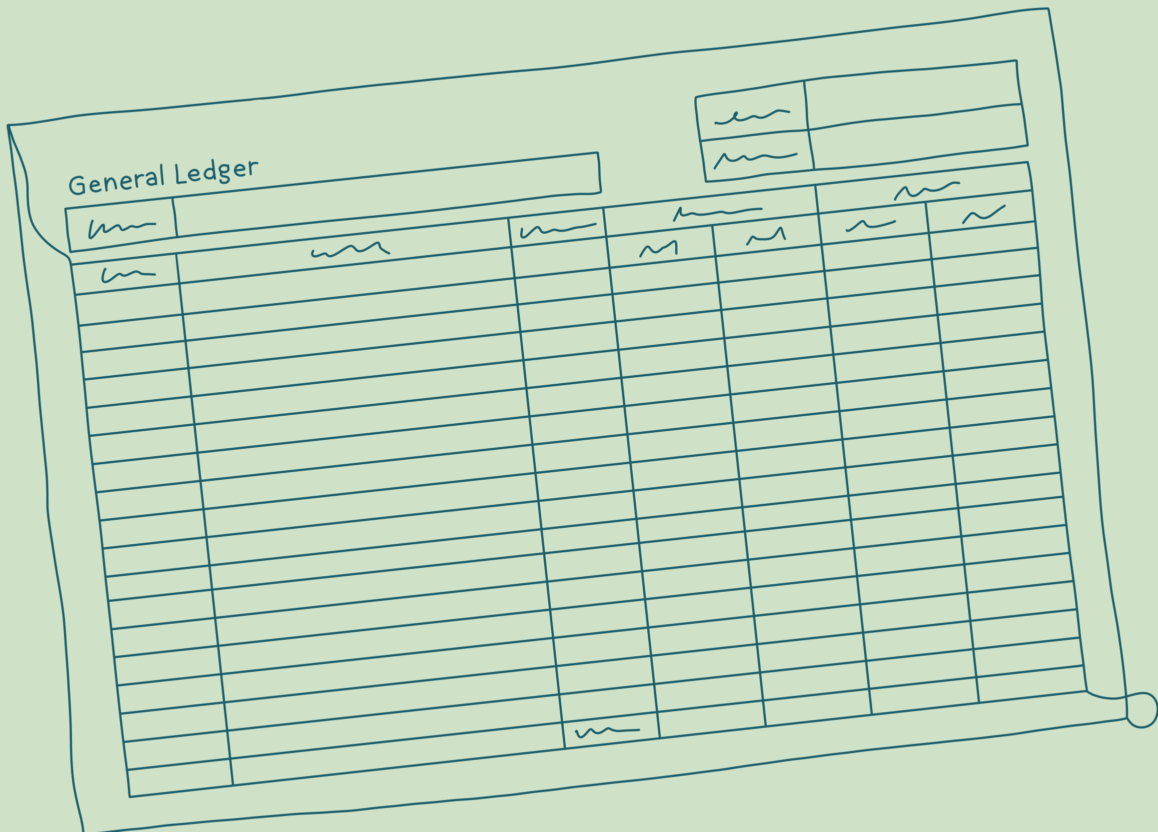
If you want to use Free File, be sure to go through the IRS's website rather than individual providers' sites. Many states also offer free state tax-prep online, and some are linked to IRS Free File.

If you use commercial software, it may also be free. If it isn't, consider paying the fee yourself rather than having it subtracted from your refund, as the fee for this convenience can be high. While the IRS still accepts returns on paper, it has a large backlog of them due to the pandemic. E-filing is almost always the fastest way to get a refund.

Also research the cost of preparing and e-filing your state taxes. Commercial tax-prep firms often charge for this, but many states have ways to e-file for free.

Section 5

For Business Owners



For Business Owners

For most U.S. business owners, the political fighting over the corporate tax rate and taxation of foreign income is irrelevant. That is because most U.S. businesses are organized as so-called pass-through entities for tax purposes. This means the businesses' income and expenses pass through to the owners' individual tax returns, and any income taxes are paid at individual tax rates.

So everything that affects individual taxpayers also affects the owners of S corporations, partnerships, limited liability companies and sole proprietorships.

The definition of business owner can also be quite broad. Gig workers and others who are independent contractors are technically treated as business owners under the tax system. That comes with additional tax obligations because they must pay their own payroll taxes through the self-employment tax system. Many business owners can deduct a variety of expenses that employees can't deduct on their individual returns, as long as they keep careful records. These business deductions can include costs related to driving, maintaining a home office, tax-preparation fees and business meals. In more than 20 states, many pass-through businesses can use special taxes to help avoid the federal $10,000 limit on deductions for state and local taxes.

PASS-THROUGH DEDUCTION

For many of these business owners, the most important tax-code feature is the special deduction for pass-through businesses. Congress created this 20% deduction in 2017 as part of the tax cuts pushed by then-President Donald Trump, and it was designed to give them an effective tax-rate cut just like the one corporations received. Like other pieces of that law, the deduction is scheduled to expire after 2025 and is under attack from Democrats.

TODAY'S SPECIAL

For many of these business owners, the most important tax-code feature is the special deduction for pass-through businesses.

For Business Owners

In 2021, for individuals with taxable income up to $164,900 and married couples with taxable income up to $329,800, the pass-through deduction is unlimited, regardless of industry, employees and assets. Those numbers move up to $170,050 and $340,100 for tax year 2022.

Above those thresholds, there are limits. Specified service businesses—including medical practices and accounting firms—start losing the deduction. For others, the deduction is limited by a formula that takes into account wages paid and tangible assets.

For more information, see IRS Publication 535.

EMPLOYEE RETENTION CREDIT

The coronavirus pandemic prompted Congress to make a series of changes to business taxation, some of which are still lingering into 2022. Other potential changes—particularly for multinational corporations—are potentially on the horizon.

Many smaller businesses are affected by Congress's decision to repeal the employee retention tax credit that was created during the pandemic. The credit operated as a wage subsidy. In 2021, businesses could receive up to 70% of wages paid, up to $7,000 per employee per quarter.

RETENTION CREDIT

Businesses with 500 or fewer workers in 2021 can generally get the employee-retention credit to cover their workers; that threshold was 100 for 2020.

For 2021, businesses were eligible if they had a revenue decline of at least 20%, which was more generous and lenient than the 2020 version of the credit. Businesses could also become eligible if they were subject to government restrictions or closures.

Businesses with 500 or fewer workers in 2021 can generally get the credit to cover their workers; that threshold was 100 for 2020. Above those levels, larger

businesses are limited in that they can generally get the credit only if they are paying people not to work.

But Congress repealed the credit effective after Sept. 30 for almost all businesses as part of the infrastructure legislation that became law in November. The IRS has set up a procedure for business owners who may have gotten advance payments of that credit for periods after it expired.

EATING OUT FOR WORK

Another pandemic-era provision continues through 2022. Businesses can fully deduct the cost of restaurant meals, rather than facing a 50% limit that had applied before. Mr. Trump pushed for that idea to aid the struggling restaurant industry. The deduction applies to delivery and carryout meals as well as to those consumed in restaurants.

Businesses that took advantage of a third pandemic-era break need to begin repaying it. Congress let employers delay paying their share of payroll taxes during 2020, and pay it back in two installments at the end of 2021 and 2022. The idea was to help businesses with their cash flow. The first payment was due in late 2021 or early 2022 and the second payment is due at the end of 2022. This was separate from an optional payroll tax deferral for employees during 2020.

DIGITAL PAYMENTS

Another tax change going into effect in 2022 will affect businesses that receive payments through platforms such as PayPal and Venmo. Those services will begin sending information returns to users and to the IRS when transactions for goods and services exceed $600 in a year. The plan,

NEW REPORTING
Another tax change going into effect in 2022 will affect businesses that receive payments through platforms such as PayPal and Venmo.

enacted by Congress in 2021, is aimed at people who conduct business using those payment systems, not at people who get reimbursements from friends and relatives. Those information returns will give the IRS more data about their business activities so the agency can encourage compliance and more effectively target enforcement resources.

Before that change, the information returns were sent only when a particular user had more than $20,000 and 200 transactions. This requirement will apply to transactions starting in 2022, not to returns being filed early this year. It doesn't change the rules about whether such transactions amount to income, and that can vary depending on the individual circumstances.

INTEREST COSTS AND CAPITAL EQUIPMENT

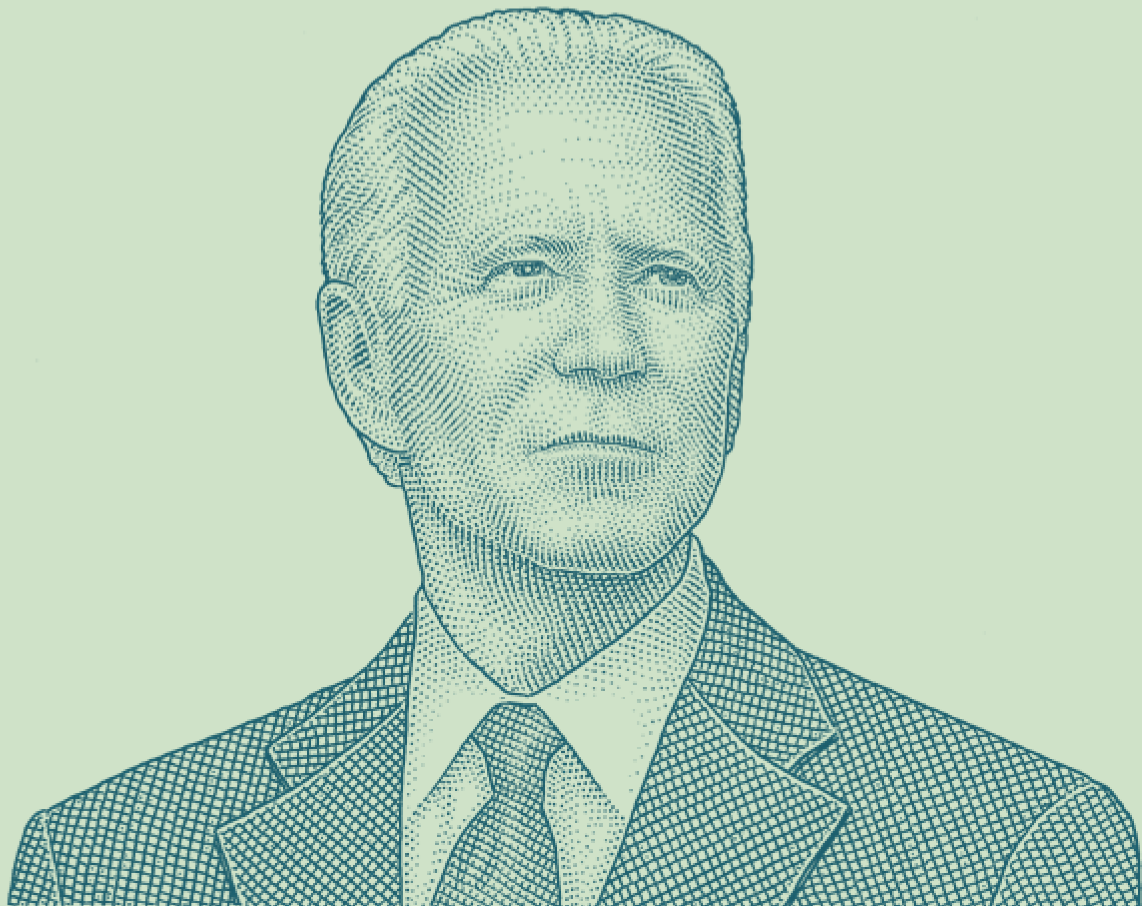
Changes from the 2017 tax law are still roiling businesses as the rules change. Starting in 2022, many businesses will be required to amortize their research costs rather than deduct them immediately. Members of both parties favor repealing or delaying that change, but they haven't been able to do so. That could still happen retroactively, which would wipe out the changes.

Large companies will face even tighter limits on deducting their interest costs under a new formula.

And a provision of the 2017 tax law that allowed 100% deductions for companies that purchase capital equipment will start phasing down. After this year, the benefit starts declining so that there is a first-year deduction worth 80% in 2023, 60% in 2024, 40% in 2025 and 20% in 2026. Congress may revisit that structure, but as currently set up, businesses have an incentive to put new equipment in service during 2022. Smaller businesses have a similar—but permanent—provision for immediate write-offs.

Epilogue

President Biden and The Democrats' Tax Agenda...Where It Stands



President Biden and the Democrats' Tax Agenda...Where It Stands

Democrats control Congress and the White House for the first time in more than a decade, but so far, they haven't been able to turn the bulk of their big-picture tax agenda into law.

Crucial features of the tax code—including the state-and local-tax deduction, the child tax credit and tax rates on high-income households—remain in limbo after the Democrats' Build Back Better legislation foundered in late 2021. For now, the major contours of U.S. tax policy are the ones that Republicans set in the 2017 tax law. And if Democrats lose control of one or both houses in midterm elections this fall before they can get a major tax bill through Congress, the agenda will be put on hold for the foreseeable future.

Most Democrats have a clear sense of how they want to reshape the tax code permanently, beyond the temporary expansions of the child tax credit and other changes that were in place for 2021. Generally, they want to raise taxes on high-income people and use tax credits to provide income support for lower-income and middle-income families. The higher revenue would also pay for programs, including expanded healthcare coverage, prekindergarten classes and climate-change initiatives.

But with the Senate split 50-50, the details have tripped them up. Sen. Joe Manchin (D., W.Va.) has objected to the expanded child tax credit and Sen. Kyrsten Sinema (D., Ariz.) has rejected marginal tax-rate increases.

CHILD TAX CREDIT

At the moment, the child tax credit is the biggest open question affecting the most taxpayers. Democrats temporarily expanded the credit in 2021 in several key ways. They increased the maximum size of the credit to $3,000 from $2,000

for many households, made it fully available to families with little or no income and added a $600 bonus for children under 6. The IRS also began delivering the payment monthly last July.

But those payments stopped after December 2021.

Most Democrats now want to revive that break and expand it through at least 2022, calling it a huge stride in fighting child poverty. Mr. Manchin has resisted, citing his concerns about the lack of an earned-income requirement. For now, the old credit is back in place. President Biden has said it seems likely Democrats won't be able to extend the expanded credit as they attempt to reshape the party's so-called Build Back Better legislation.

> **"The state and local tax deduction (SALT) is a source of tension within the Democratic Party, and lawmakers haven't settled on a decision there."**

SALT DEDUCTION

The state and local deduction is a source of tension within the Democratic Party and lawmakers haven't settled on a decision there either.

Democrats won control of the House in 2018 on the strength of suburban voters in New York and New Jersey who were frustrated by the Republican tax law that capped the state and local tax deduction at $10,000.

They promised to reverse that move, but progressives such as Sen. Bernie Sanders (I., Vt.) counter that the benefits of repealing the cap are tilted too much toward high-income households that pay significant state income taxes.

President Biden and the Democrats' Tax Agenda...Where It Stands

The version of the Build Back Better bill that passed the House in November 2021 would raise the $10,000 cap to $80,000, effective for tax year 2021. Senators sought to lower that cap or set an income limit on the benefit, and they haven't settled on what to do. Some House members insist they won't accept any piece of the Biden economic agenda if the deduction cap isn't changed.

HIGH-INCOME HOUSEHOLDS

There is also uncertainty about what to do for high-income households, and the key benefits of the 2017 Republican tax law remain in place.

President Biden campaigned on raising the top marginal tax rate on individuals to 39.6% from 37%, imposing taxes on unrealized capital gains at death and raising top tax rates on capital gains and dividends. Senate Finance Committee Chairman Ron Wyden (D., Ore.) proposed taxing billionaires' annual gains in wealth as income. But those proposals haven't advanced either.

Ms. Sinema stopped the rate increase, and a coalition of Democrats from rural states blocked the capital-gains change. The billionaires' tax didn't get enough support to advance either.

In their place, Democrats advanced a surtax on adjusted gross income that would be 5% above $10 million and another 3% above $25 million.

Democrats are pursuing several other tax increases that would affect high-income households. They would broaden a 3.8% tax on investment income so that it would apply to the active income of business owners making more than $400,000.

Other plans to tax high-income households have fallen out of the proposals as they have advanced. Democrats had considered including lower per-person exemptions from the estate tax and tighter limits on a 20% deduction for business owners who pay taxes through their individual returns.

President Biden and the Democrats' Tax Agenda...Where It Stands

CLIMATE CHANGE

Individuals may also get tax incentives as part of the Democrats' efforts to address climate change. Lawmakers are considering larger tax credits for the purchase of electric vehicles with bonuses for vehicles manufactured in the U.S. by unionized workers.

They would also extend and expand tax breaks for people who spend money on energy efficient improvements to their homes.

THE SMALL STUFF

And any time Congress considers major tax changes, smaller ones often ride along.

Those could include tax increases like: changes to limit the tax benefits of selling and quickly re-buying cryptocurrency; limits on contributions to very large tax-advantaged retirement accounts; and restrictions on high-income people using business losses to offset other income.

And they could include tax cuts: a deduction for union dues; a deduction for the cost of employee uniforms; and expansions of the earned-income tax credit for low-income workers.

But, for now, the proposals remain just that—proposals.

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