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Key Updates for 2022 & Financial Planning Considerations

Notable Updates for 2022

Continued Political Gridlock = Uncertainty for Taxpayers

- Ordinarily, taxpayers would enter the year with an understanding of what has changed from the prior year, though that isn't necessarily the case as of this writing (January 2022).
- Very narrow Democratic majorities in the House and Senate stalled progress for the Build Back Better Act (BBBA), which Democratic leadership hoped to pass before year-end 2021.
- In the coming months, taxpayers will watch to see whether the Build Back Better Act (BBBA) and the SECURE Act 2.0 will gain traction in Congress.

Please continue to check our website for the latest updates related to BBBA, SECURE Act 2.0, and other important legislation.

Build Back Better Act (BBBA)

The proposed legislation is currently 'on hold' though Democratic leadership still aims to pass BBBA in the coming months.

Tax Provision	Earlier Proposal (September 2021)	Current Status (House-passed, November 2021)
Top Individual Federal Income Tax Rate	Restore the top rate to the pre-TCJA level of 39.6 percent	Proposal Removed
Long-Term Capital Gains	Increase tax rate from 20 percent to 25 percent, effective as of September 13, 2021	Proposal Removed
Net Investment Income Tax (NIIT)	Expand the application to trade or business income for taxpayers with AGI exceeding $400,000	Proposal Remains
Surcharge for High Income Earners	3 percent surtax on AGI > $5 million	5 percent surtax on AGI > $10 million Additional 3 percent surtax on AGI > $25 million
Surcharge on Trusts & Estates	N/A	5 percent surtax on AGI > $200,000 Additional 3 percent surtax on AGI > $500,000
State & Local Tax Deduction (SALT)	Not addressed	Increase cap from $10,000 to $80,000 for tax years 2021-2030 The cap would reset to $10,000 for 2031, after which it would expire

Build Back Better Act (BBBA)

The proposed legislation is currently ‘on hold’ though Democratic leadership still aims to pass BBBA in the coming months.

Tax Provision	Earlier Proposal (September 2021)	Current Status (House-passed, November 2021)
Estate Exclusion & Lifetime Gift Tax Exemption	Accelerate the sunset of the elevated exemption (via the Tax Cuts and Jobs Act) to 2022 (from December 31, 2025) If pursued, the exemption would drop from nearly $12 million to $6 million per person	Proposal Removed
Grantor Trust Provisions	Various changes which would have impacted grantor trust rules for both income tax and transfer tax purposes, which would have largely eliminated various grantor trust-related planning strategies	Proposal Removed

Build Back Better Act (BBBA)

The proposed legislation is currently 'on hold' though Democratic leadership still aims to pass BBBA in the coming months.

Tax Provision	Earlier Proposal (September 2021)	Current Status (House-passed, November 2021)
IRA Contributions	For certain high-income taxpayers* with more than $10 million in combined retirement account balances, additional contributions would be prohibited	Proposal Remains
"Backdoor" Roth Contributions	Starting January 1, 2022, Roth conversions of after-tax contributions to IRAs or qualified retirement plans would be prohibited	Proposal Remains
Roth Conversions	Starting in 2032, Roth conversions would be prohibited for certain high-income taxpayers*	Proposal Remains
Mandatory Distributions for Large Retirement Balances	For tax years after 2028, for certain high-income taxpayers* with retirement balances greater than $10,000,000, a required minimum distribution of 50 percent of the amount above $10,000,000 and 100 percent of the amount greater than $20,000,000	Proposal Remains
Prohibition of Alternative Investments in Retirement Accounts	Prohibit retirement accounts from holding investments that would require the IRA owner to have a certain minimum level of assets or income (such as private equity, hedge funds, etc.)	Proposal Removed

** Taxable income thresholds: $400,000 for single taxpayers (or married filing separately); $450,000 for married filing jointly; and $425,000 for head of household.*

Retirement Legislation / SECURE Act 2.0

Given bipartisan support, expectations are high for additional retirement legislation to be passed in 2022.

Proposal	Notes
Increase Age for Required Minimum Distributions (RMDs)	Under House and Senate proposals, the RMD age would gradually increase to 75. A House proposal would increase the start age to 73 in 2022, 74 in 2029, and then 75 by 2032.
Increase Catch-up Retirement Contributions	For 2022, employees over age 50 can make a 401k catch-up contribution of $6,500. • A House proposal would increase the catch-up to $10,000 for ages 62-64 • A Senate proposal would increase the catch-up to $10,000 for those age 60 or older The catch-up contribution for SIMPLE IRA and SEP-IRA participants would be increased from $3,000 to $5,000 for those aged 62-64. In addition, the catch-up contribution limit for IRAs would be indexed to inflation.
Reduced RMD Penalties	Reduce the penalty from 50 percent to 25 percent for failure to take RMDs; furthermore, the penalty would be reduced to 10 percent if the taxpayer corrects the error promptly.
Auto-Enrollment for 401k Plans	Employers would be required to automatically enroll new employees at a 3 percent contribution rate, with an annual 1 percent increase up to 10 percent. Employees would have the ability to ‘opt out’ from this provision.
Increased Tax Credits for Retirement Plans for Small Business Start-Ups	The tax credit would be increased from 50 percent to 100 percent for businesses with up to 100 employees. The credit would phase down based on year of retirement plan adoption: • 100 percent for years 1-2 • 75 percent for year 3 • 50 percent for year 4 • 25 percent for year 5 • no credit after year 5

Other Updates for 2022

Roth IRA Changes Ahead?

As referenced earlier, significant changes may be ahead for Roth IRAs, based on the most recent available drafts of Build Back Better Act (BBBA) and SECURE Act 2.0.

- “Backdoor” Roth contributions could be disallowed as early 2022, as after-tax IRA and retirement plan contributions would be prohibited from being converted to a Roth account.
- Roth conversions could be disallowed for high income taxpayers, with a potential begin date of 2032.

IRS Updates Tables for Required Minimum Distributions (RMD)

For distributions from retirement accounts beginning on or after January 1, 2022, RMDs are based on the updated tables, which, as a result of longer life expectancies, now incorporate a larger divisor, which in turn results in a smaller RMD (on a percentage basis).

- **Uniform Lifetime Table** – default table used by most plan participants or IRA owners
- **Joint and Last Survivor Table** – used if a spouse is the sole beneficiary and is more than 10 years younger than the account holder
- **Single Life Table** – used for beneficiaries of plans, IRAs (traditional and Roth), and non-qualified annuities

Other Updates for 2022

Adjusted Gross Income (AGI) Limitation for Charitable Gifts

The CARES Act provided an increased deduction for cash donations made to a public charity (excluding donor-advised funds and most private foundations), with taxpayers able to deduct up to 100 percent of adjusted gross income (AGI) for such gifts made in 2020 or 2021.

This increased deduction expired at the end of 2021; barring any renewal of the provision, cash donations to public charities are limited to 60 percent of AGI.

Social Security Benefits Increase

For 2022, the Cost-of-Living-Adjustment (COLA) results in a 5.9 percent increase to Social Security retirement benefits.

The adjustment represents the largest single year boost since 1983 (+7.4 percent). Prior to 2022, COLAs had averaged a modest +1.65 percent increase over the past decade.

In 2021, the average monthly Social Security retirement benefit was $1,565, which would increase to approximately $1,657 following the 2022 COLA.

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