Tax Law Update 2022

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The U.S. tax code has been significantly altered every year since 2018 as political objectives are translated into tax legislation, substantially increasing complexity. In addition to tax law, the IRS issues new tax regulations, such as digital asset reporting, 1099-K payments from third parties and a multitude of complex rules on partnership accounting and taxation. We are constantly monitoring the changing landscape and strategically thinking many years ahead on long term tax minimization.

Many tax provisions have expiration dates and are often renewed late or substantially changed. In 2022, the most significant expiring provisions related to COVID, stimulus payments, the expanded child tax credit, and temporary increases in dependent care credit. The entire Tax Cut and Jobs Act (TCJA), which took effect on January 1, 2018, is set to expire at the end of 2025. TCJA produced dramatic tax law changes, particular in business taxes, lowering the corporate rate to 21%, liberalizing depreciation rules, and creating a new Section 199A Qualified Business Income Deduction (QBID) of up to 20% of self-employed income and certain K-1 pass throughs of ordinary and rental income. Individuals received lower rates, but the $10,000 limitation on State and Local Taxes (SALT) reduces the benefits of itemized deductions.

Legislation passed in 2022 with significant tax provisions included the Infrastructure Investment Jobs Act, Inflation Reduction Act and Continuing Appropriations and Ukraine Supplemental Appropriations Act 2023. These include new tax credits for solar, energy efficient homes and electric vehicles. Some of those expanded credits do not take effect until 2023. There are also expanded contribution limits for employer sponsored retirement plans and higher income limits for Roth IRA contributions. Below we summarize major recent changes and reiterate substantive provisions from the TCJA which expire at the end of 2025. Look for political negotiations that would extend some of the business friendly TCJA provisions in exchange for expanded child tax credits or other items to help low income and working class families.

Major Recent Changes

Individual Tax Law Changes

Child Tax Credit Reverts to 2020 Levels: The expanded child tax credit and advance payments expired at the end of 2021. Child tax credit now reverts to 2020 levels of $2,000 per child under 17, $500 family tax credit (dependents over 17) and income phase outs for credits start at $400,000 married filing jointly and $200,000 single.

Clean Vehicle Tax Credits: Inflation Reduction Act of 2022 significantly expanded tax credits for purchasing electric vehicles (and some plug-in hybrids) purchased on January 1, 2023 or later. Credit is up to $7,500 for new vehicles. For previously owned vehicles, credit is 30% of cost not to exceed $4,000 credit. Recharging station credit up to $1,000. To qualify, your modified adjusted gross income may not exceed $300,000 for married filing jointly, $225,000 for heads of household, $150,000 for single and other filers. You use your modified AGI from the year you purchase the vehicle or the year before, whichever is less. If your modified AGI is below the limit in one of the two years, you can claim the credit. We must enter VIN on tax form to claim credit. We need your bill of sale.

Qualified vehicles must have a battery capacity of at least 7 kilowatt hours, gross weight less that 14,000 pounds, and be made by qualified manufacturer. Please consult with your dealer (or Tesla which direct sells) as to the qualifying criteria and provide us the bill of sale and response from dealer. Please note rule changes are date sensitive. Here is a link to the Congressional Research Service two pages summary with links to Department of Energy approve vehicle list. https://crsreports.congress.gov/product/pdf/IN/IN11996. Here is the IRS FAQ page on "Manufactures and Models for New Qualified Clean Vehicles Purchased in 2023 or After"

For vehicles purchased in 2022, there are different requirements. See IRS page "Manufacturers and Models for New Clean Vehicles Purchased in 2022 and Before." The North American assembly requirement takes effect August 16, 2022.

Residential Clean Energy Credit (primarily solar): Old solar credit is renamed, expanded and extended through December 31, 2032. Credit is 30% of actual cost (net of subsidies), then drops to 26% in 2033 and 22% in 2034. In 2023, battery storage technical is added to quality property and biomass furnaces and water heaters are removed. In order to qualify, solar system must be installed on individual's primary or secondary residence. System must be owned not leased and credit only available on original installation.

Energy Efficient Home Improvements Credit: During 2022, tax law relating to energy credits has been significantly expanded. Be mindful of effective dates as much of the new law does not take effect until January 1, 2023, but the old residential energy credit was still in place. For 2022, credit is limited to 10% of qualified costs not to exceed $500 lifetime credit. Starting in 2023, credit is expanded to 30% of qualified costs not to exceed $1,200 credit and applies to first and second homes with $600 per item limit with window and skylights, exterior door at $150-$500 in aggregate. Home Energy Audit deductible at 30% not to exceed $150. Credits expire in 2032. We recommend you check your type of improvements against this IRS fact sheet: https://www.irs.gov/pub/taxpros/fs-2022-40.pdf

Digital Asset Reporting: IRS has dramatically expanded the requirements for digital asset report to go beyond crypto and now include all forms such as non-fungible tokens (NFTs) and new reporting rules to capture receipt of digital assets as taxable compensation. The new "Yes/No" checkbox reads: *"At any time during 2022, did you (a)receive (as reward, award, or compensation); or (b) sell, exchange, gift or otherwise dispose of any financial interest in digital asset (or financial interest in a digital asset)?* The IRS has replaced the term "virtual currency" with "digital asset" (which includes NFTs and similar assets) and the new bifurcated question is seeking information about receipt of digital assets as compensation subject to tax and not mere sales for capital gains. The Treasury Department and IRS are working on a new 1099-DA form to require reporting of exchange-based digital asset activities.

IRS has comprehensive FAQ on Digital Assets and Virtual Currencies:
Frequently Asked Questions on Virtual Currency Transactions | Internal Revenue Service (irs.gov)

The IRS also considers income from miners as taxable self employment income
Digital Assets | Internal Revenue Service (irs.gov)

Standard Deductions Increase Each Year: For 2022, single $12,950, married filing jointly $25,900. For 2023, single $13,850. married filing jointly $27,700.

Limited Itemized Deductions: The TCJA effective 2018 limited state and local tax (SALT) deduction to $10,000 ($5,000 married filing separately) and eliminated unreimbursed employee business expenses and other miscellaneous itemized deductions. There are no inflation adjustments for SALT limits.

Alternative Minimum Tax (AMT) Largely Eliminated: TCJA largely eliminated AMT for most taxpayers unless you have very large capital gains taxed at 15% rate. TCJA also allows us to claim credits for AMT paid in prior years.

Qualified Business Income Deduction: In order to reduce the tax rate on ordinary business income for self employed and pass through entities (including investments in REITS and trusts that issue K-1s), the TCJA credited a qualified business income deduction that is 20% of qualified business income from self employment, S corps, partnerships, rental property, etc. This is all subject to some complex formulas and adjustments explained in detail later. QBID set to expire at end of 2025.

Business Tax Law Changes (including Schedule C & E in some cases)

Qualified Improvement Property: The TCJA created a definition of a "qualified improvements property" which had to be commercial interior renovations and excluded certain aspects such as elevators and heating/cooling systems. However, the TCJA hurt small retailers, bars and restaurants by forcing them to depreciate leasehold improvements over 39 years instead of 15 years under prior law. The CARES Act retroactively changed QIP recovery to a 15 year period instead of 39 years and QIP now qualified for bonus depreciation. Change is effective for tax years beginning in 2018.

Net Operating Losses: The TCJA imposed limitations on net operating loss (NOL) carryforward or carryback to 80% of the taxpayer's taxable income for losses arising in taxable years beginning after December 31, 2017. Additionally, under TCJA (now altered) all carrybacks will be repealed except special two-year carryback in the case of losses incurred in the trade or business of farming, beginning after 2017. These provisions are relevant to small business owner-operators of C corporations who typically drain income at year end to prevent double taxation. NEW RULES UNDER CARES Act. CARES Act relaxes these limitations and now allows businesses to carry back NOLs incurred in 2018, 2019 and 2020 for five years. We believe use of this provision could be a significant audit risk, as multiple years of returns will be scrutinized by the IRS before providing you the tax benefits.

Business Interest Deduction: TCJA imposed limitations for business interest deduction for businesses that exceeded $25 million in revenue. CARE Act relaxes those limitations. We have seen this impact owners of REITS, where the K-1s for 2020 showed retroactive claiming of previously limited business interest deduction.

Capital Gains Tax

Capital gains tax rates remain unchanged. Short-term capital gains are for property held under one year and are taxed at ordinary income rates (see income tax rate charts at end of this article). Long-term capital gains rates apply for holding periods over one year. Long term rates vary by income level, with lower income persons enjoying a zero percent rate on a limited portion and the wealthy paying more. The table below illustrates. Net investment income tax can apply. See rules below.

Long Term Capital Gains Tax Rates 2022

	Single	**Married Filing Jointly**	**Married Filing Separately**	**Head of Household**
Long Term Rate	Your Income	Your Income	Your Income	Your Income
0%	$0-$41,675	$0-$83,350	$0-$41,675	$0-$54,100
15%	$41,676-$459,750	$83,351-517,200	$41,676-258,600	$54,101-$473,750
20%	$459,751 or more	$517,201 or more	$258,601 or more	$473,751 or more

Long Term Capital Gains Tax Rates 2023

	Single	**Married Filing Jointly**	**Married Filing Separately**	**Head of Household**
Long Term Rate	Your Income	Your Income	Your Income	Your Income
0%	$0-$41,675	$0-$83,350	$0-$41,675	$0-$55,800
15%	$41,676-$459,759	$83,351-$517,200	$41,676-$258,600	$55.801-$488,500
20%	$459,751 or more	$517,201 or more	$258,601 or more	$488,501 or more

Rule Exceptions: Not all assets qualify for these rates. For example, collectables such as fine art, antiques, rare coins, and precious metals are typically tax at 28%. Qualified Small Business Stock (IRC Section 1202) where you received an exemption on portion you sold (often half or all), the remainder is typically taxed at 28% to prevent and double tax break. Deprecation recapture on property is taxed at 25%.

Note the higher 20% rate also applies to qualified dividends.

Tax minimization strategy is to try to offset capital gains with capital losses by timing sales. Additionally, if your income is down in a particular year, you may want to realize some capital gains to make use of the lower brackets.

Virtual Currency/Cryptocurrency/NFT Sales: The IRS considers sale of cryptocurrency like Bitcoin sale of property and taxes it as a capital gain. Technically, every time you spend Bitcoin or similar cryptocurrencies for goods and services you are creating a sale. For example, if you have a Coinbase account and a Swift Card attached, every time you buy something, the federal government considers it a sale subject to capital gains. It is very important to keep accurate records as the IRS is increasing its scrutiny of the ownership, sales and transactions in virtual currencies, including Yes/No checkbox made under penalties of perjury.

Net Investment Income Tax

In addition to capital gains tax and income taxes on dividends and interest, there is a Net Investment Income Tax (NIIT) at a rate of 3.8% that applies to certain investment income of individuals, estates and trusts that have modified adjusted gross income above the following statutory threshold amounts:

Filing Status	**Modified AGI Threshold Amount**
Single	$200,000
Married Filing Jointly	$250,000
Married Filing Separately	$125,000
Head of Household (with qualifying person)	$200,000
Qualifying Widow(er) with dependent child	$250,000

These threshold amounts are NOT indexed for inflation.

In general, investment income subject to NIIT includes capital gains, dividends, interest, rental and royalty income, non-qualified annuities, income from businesses involved in traded of financial instruments or commodities, and businesses that are passive activities to the taxpayers. Excluded from NIIT are active income such as wages, operating income from an active trader business, tax-exempt interest and Alaska Permanent Fund Dividends.

Retirement Funding Limits 2022

Traditional IRA Roth IRA	$6,000 contribution limit plus $1,000 catch up contribution if you are over age 50. Traditional IRA contributions can be limited if you or your spouse is covered by a retirement plan at work. Roth IRA contribution is subject to income limits: single and head of household under $129,000 with reduced amount up to $144,00; married filing jointly under $204,000 with reduced amount up to $214,000, and $0-$10,000 for married filing separately when living with spouse.
401(k), 403(b), 457(b)	$20,500 elective deferral limit plus catch up contribution of $6,500 if you are over age 50.
Maximum Defined Contribution Limit	The overall defined contribution limit from all qualified plans is $61,000. This is most relevant to self-employed **SEP/IRA** who are funding based on percentage of profit up to this limit.
SIMPLE IRA	$14,000 elective deferral plus $3,000 catch up contribution if you are over age 50 with option for employer to match another $3,000.

Retirement Funding Limits 2023

Traditional IRA Roth IRA	$6,500 contribution limit plus $1,000 catch up contribution if you are over age 50. Traditional IRA contributions can be limited if you or your spouse is covered by a retirement plan at work. Roth IRA contribution is subject to income limits: single and head of household $138,000 with reduced amount up to $153,000; married filing jointly $218,000 with reduced amount up to

	$228,000, and $0-$10,000 for married filing separately when living with spouse.
401(k), 403(b), 457(b)	$22,500 elective deferral limit plus catch up contribution of $7,500 if you are age 50 or older, allowing for $30,000 maximum if 50 or older.
Maximum Defined Contribution Limit	The overall defined contribution limit from all qualified plans is $66,000. This is most relevant to self-employed **SEP/IRA** who are funding based on percentage of profit up to this limit.
SIMPLE IRA	$15,500 elective deferral plus $3,500 catch up contribution if you are over age 50 with option for employer to match another $3,000.

There are three versions of SECURE Act designed to improve savings rates.

SECURE ACT 2.0 (passed in 2022 and overrides prior SECURE Act provisions): Pushes back beginning date for required minimum distributions (RMD) from qualified plans. Individuals turning age 72 during 2023 or later will start their RMD at age 73. For those reaching age 74 after December 31, 2032, their start date is age 74. For tax years beginning after 2024, employees who are age 60-63 years old can take advantage of new catch up contribution of $10,000. Catch up contributions those earning wages over $145,000 must designate all catch up contributions to designated Roth account effective for tax years after 2023.

SECURE ACT 2021: Raises age for Required Minimum Distribution (RMD) to 75, but this is phased in over several years from 72 to 75. Increases catch up contributions for ages 62, 63 and 64 to $10,000 for participants in 401(k) and 403(b) and $5,000 for SIMPLE. Catch up contributions indexed to inflation starting in 2023. New employer option to creating matching program to help employees pay off student loans.

SECURE Act of 2019: Raises age for Required Minimum Distributions (RMD) to 72. Repeals the 70 ½ age limit for making contributions to Traditional IRA starting in 2020. Accelerates the RMD for non-spousal inherited IRAs to not exceed 10 years. Creates some new limitations on Qualified Charitable Distributions from IRA.

Tax Optimization Considerations

Tax law changes 2018-2021 added layers of complexity that offer new, creative ways of structuring your businesses, investments and income that will require very detailed analysis to identify optimal structure. We offer Tax Restructuring Services to help guide clients through adopting the ideal business structure that lawfully minimizes taxes.

Some major tax planning challenges are:

1. Proper structuring of business income and active real estate investing to qualify for new Section 199A deduction of 20% of qualified business income. This includes assessment of benefits of being LLC vs S corporation vs C corporation from the vantage point of all taxes and deductions, including income vs. FICA tax and deductions for QBID and retirement funding. Additionally, there are partial capital gain exclusions for sale of small business C corporation that do not apply

to pass through entities (Section 1202). Therefore, careful long-term planning and optimization is recommended. Non-SSTB businesses may do better as LLC than S corp due to QBID.

2. Long term planning to see if it makes sense to claim Section 179 and bonus depreciation to the limit, which could create net operating losses which can only offset 80% of future income in a particular year. In many cases, especially start-ups, it makes sense to slow down the depreciation so it is claimed more evenly across years when profit is being earned.

3. Home ownership benefits are reduced by limiting state and local tax deductions. Benefits of rental property increase with new Section 199A QBI deduction under the assumption of net income from rental activities (most rental property operate at a loss given depreciation required). As a result, some clients have asked us to analyze if it makes more sense to not own a primary residence and to concentrate their real estate holdings into rental properties instead of homes. This could produce current year tax savings, but you would forfeit capital gain exclusions of $500,000 ($250,000 if single owner).

4. If you are an employee, you are no longer able to deduct unreimbursed employee business expenses. You are better off negotiating expense reimbursement plan with employer as part of your compensation.

Section 199A QBID: 20% Deduction for Pass Through Income

Section 199A Qualified Business Income Deduction (QBID) is a complex formula to provide tax relief to unincorporated business owners and investors in qualified real estate investment trusts (REITs) and partnerships by excluding up to 20% of the qualified business income from taxation. While Congress sold this as a method to provide tax relief to small business owners organized as sole proprietors, LLCs, partnerships and S corporations as a companion to lowering C corporation tax rate to 21%, the Section 199A QBID is a complicated set of calculations to limit the deduction.

Section 199A taxes different professions and industries at different tax rates. Professionals in accounting, law, medicine, brokerage, investment advising, athletics, performing arts and consulting (producing advice instead of tangible deliverables) are deemed "specialized service trade of business" (SSTB) that are subject to income phase outs presented below. Architects, engineers and real estate professionals are specifically excluded from the SSTB income limitations by statute.

Non-service businesses, such as rental property, hotels/resorts, and K-1 ordinary income from publicly traded partnerships, are subject to a wage and capital tests, which provide advantages to capital intensive businesses, including commercial real estate.

The QBID is limited by income tests for SSTB service businesses, a wage and capital test for non-service businesses, and overall limitations based on taxable income (total income less adjustments to income such as retirement contributions, less either standard deduction or itemized deductions).

1. Taxable income limits apply to specialized service trade of businesses (SSTB) claiming Section 199A QBI deduction.

- Single/HOH/MFS filer starts phasing out at $170,050 ($182,100 in 2023) and is completely phase out at $220,050.
- Married filing jointly (MFJ) filers start phasing out at $364,200 and completely phased out at $464,200.
- If taxable income is greater than $170,050/$364,200 but less than $220,050/$464,200, then a partial deduction is available based on wage and capital test applicable to non-service businesses.

2. Income from non-service pass through businesses is limited by your share of wages paid and unadjusted cost basis of property once your taxable income exceeds SSTB limits:
   - Taxpayer either claims 50% of employer wages paid or 25% of wages plus 2.5% of the value of qualified property purchased and compare it to 20% of the taxpayer's qualified business income. You can claim the lower amount of the adjustment.

3. Overall limitation that applies to all scenarios is that QBID cannot exceed 20% of taxable income, which is income after adjustments to income and standard or itemized deductions. Suppose taxpayer is Schedule C with $100,000 net profit, fully funds SEP/IRA at $20,000, has self-employed health insurance premiums of $6,000, can automatically claim half self-employment tax ($7,500) and claims standard deduction of $12,950. That results in taxable income of $54,300. While 20% of QBI is $20,000, 20% of taxable income is $10,860, so you can only claim the lower amount of $10,860 as the QBID deduction. These numbers would flow a bit differently on a S corporation.

4. QBID losses carryforward so if you are self-employed or have qualified rental property that lost $10,000 in 20221 but made $15,000 in 2022, your qualified business income for 2022 decreases to $5,000 due to loss carryforward.

The 20% Section 199A QBID can be tremendous tax benefit if properly structured. If you earn $100,000 of income from pass-thru business, rental real estate or estate/trust, you are receiving a $20,000 tax deduction before the limitations listed above are applied. When multiplied against a 22% marginal tax rate, that's $4,400 in federal tax savings.

IRS regulations are still ambiguous and largely untested in certain areas. IRS Reg 107892-18 and Publication 535 Business Expenses (with new QBID section and expanded clarifications of SSTB) are the current guidance.

We can speculate on how the IRS will develop audit programs for QBID and exhibit extreme care in reporting to minimize audit risk.

Tax Planning Tips to Maximize QBID Benefits and Avoid Limitations

The S corporation is now a more powerful tax savings tool. As before, the pass-through income from an S corporation is not subject to FICA tax (15.3% for self-employed). The new 20% net qualified business income deduction of 20% has additional value (the QBI deduction amount times your marginal tax rate which is about 5 cents on the dollar for 24% marginal tax rate).

Should everyone seek to become an S corporation? Not so fast. There are a lot of rules on different entities that have unforeseen effects. Most professionals do well under S corporation. S corporation audit risk is higher because of ambiguous rule that officer-owners must pay themselves "reasonable compensation" (i.e. wages). If your company is to be sold for a large capital gain at least five years out, then a domestic C corporation is needed to qualify for Section 1202 qualified small business stock gain exclusion (can be 50% to 100% based on timing and aggregate amount). Also, a non-SSTB like real estate agent would generate more QBID as LLC (Schedule C) than S corporation, but QBI is phased out when income is too high. Planning and calculations are necessary to optimize.

Some may seek to form multiple entities to create maximum flexibility. One example could be owner of rental real estate who also performs their own property management, opportunities exist to have separate entities own the real estate who in turns hires the management company (an S-corporation that will pay W-2 wages). If your business has revenues streams from specified trade or business and non-SSTB, then you likely want to separate those income streams into separate business entities. Additionally, if you have business activities that are SSTB and others that are non-SSTB, separating them into separate legal entities is likely advisable.

If you are a real estate investor, in order to qualify you must be able to demonstrate you are actively operating a real estate business, instead of merely a passive investment, by proving you are spending substantial time actually engaged with the real estate. There are some separate rules (not fully written) that will apply to what is required for income from publicly traded REITS and partnerships to qualify.

Most of our clients with rental property, however, are probably in the passive income category but since most of those rental properties operate at a loss (after depreciation is considered) we do not see much impact on the QBI deduction. However, as always, we will be vigilant in claiming what you are legally able to.

Businesses Tax Law Changes

COVID related business tax credits (summarized above) include the Employee Retention Credit, Paid Sick Leave Credit and Paid Family Leave Credit. The IRS summarizes various new employer credits in Publication 5419 New Employer Tax Credits: Publication 5419 (Rev. 12-2020) (irs.gov). Most of the information below relates to TCJA implemented in 2018 but there were 2020 changes to rules for depreciation, net operating losses and business interest deductions.

The TCJA made very significant changes to business taxation (including self employed income on Schedule C and K-1 and rental income on Schedule E). The CARES Act reversed some of the provisions designed to increase revenue to offset lower rates. The most significant changes in TCJA with 2020 revisions and summarized below.

Lower Corporate Tax Rate: New corporate income tax rate (C corporations) for 2018 and beyond is 21% flat tax, down from graduated rates structure with 35% top rate also served as flat rate for all qualified personal service corporations. This is designed to make the USA competitive with the rest of the world which averages 22.5%. While owner-operators of C corporations typically drain income as salary and retirement plan contributions to avoid double taxation, larger enterprises cannot do so and will substantially benefit from rate reduction. Accumulated Earnings Tax still applies to prevent businesses from hoarding income beyond the reasonable needs of the business (a complicated subject and subjective standard that will not apply to most C corporation small business owners).

Personal Tax Deduction for 20% of Pass Through Qualified Business Income: There continues to be a "below the line" (i.e. after calculation of adjusted gross income) equal to 20% of qualified business income from a pass-through entity such as a sole proprietorship, S Corp. or partnership (Section 199A).

Businesses Can Immediately Expense More Property Under New Tax Law: Under accounting standards, when businesses acquire assets, they recognize the cost over the useful life of the asset, not upon purchase. We call this depreciation and amortization. Tax law seeks to accelerate the speed of write off through **Section 179** immediate expensing and **Bonus Depreciation** rules to encourage more fixed investments. Not all states recognize federal rules.

Section 179 limit is increased to $1 million for 2018 and $2.5 million thereafter. Bonus Depreciation percentage is increased from 50% to 100% for certain qualified property acquired and placed in service after September 27, 2017 and before January 1, 2023. After 2022, the allowable bonus depreciation percentage decreases by 20 percent per year.

For bonus depreciation the "new property" requirement is removed and replaced with taxpayer's first use. Bonus depreciation applies to eligible personal property under section 1245 of tax code, generally considered movable property such as equipment and furniture. Special rules and limitations apply to vehicles. To qualify for 100 percent bonus depreciation, all of the following conditions must be met: (i) taxpayer or its predecessor did not use the property at any time before acquiring it; (ii) the taxpayer did not acquire the property from a related party; (iii) the taxpayer did not acquire the property from a component member of a controlled group of corporations; (iv) the taxpayer's basis of the used property is not figured in whole or in party by reference to the adjusted basis of the property in the hands of the seller or transferor; (v) the taxpayer's basis of the used property is not figured under the provision for deciding basis of property acquired from a decedent; and (vi) the cost of the used property eligible for bonus depreciation does not include basis of property determined by reference to the basis of other property held at any time by the taxpayer (e.g. in a like-kind exchange or involuntary conversion).

As a result of these provisions, new investments of qualified property, plant and equipment (excluding real estate) can be immediately expensed when taxpayer first use is after September 27, 2017 and before January 1, 2023.

Nonresidential Real Estate – New Rules for Qualified Improvement Property: Depreciation for real estate has several components. First you must separate out the value of land and are prohibited from depreciating land. Next, residential real estate is depreciated over 27.5 years and nonresidential real estate over 39 years. No changes in new tax law to these rules. What has changed is what qualifies for bonus depreciation (see above) and how you treat nonresidential leasehold improvements.

TCJA has new term **"Qualified Improvement Property"** which consists of improvements to interior of nonresidential real property. These improvements must have been placed in service after the building was first placed in service. Qualified improvement property excludes enlargements to the building, a building's elevators and escalators, changes the internal structural framework of the building, roofs, HVAC, fire protection systems, alarm systems and security systems. Qualified Improvement Property is generally eligible for Section 179 expensing up to $1 million and Bonus Depreciation, meaning depreciation of 100% in current year if placed in service after September 27, 2017 and before January 1, 2023. Portion not qualified for 179 or bonus depreciation is expensed over 15 years (CARES Act changed from 39 in TCJA back to 15 pre-TCJA).

Individual Tax Rates for 2022 and 2023

Tax brackets are inflation adjusted every year. Below please find two tables for 2022 and 2023 brackets and tax rates for each filing status.

Individual Tax Rates for 2022

Single Filers Individual Tax Rates 2022

Tax Rate	Taxable Income Bracket	Tax Owed
10%	$0 to $10,275	10% of taxable income
12%	$10,276 to $41,775	$1,028 plus 12% of the amount over $10,275
22%	$41,776 to $89,075	$4,808 plus 22% of the amount over $41,775
24%	$89,076 to $170,050	$15,214 plus 24% of the amount over $89,075
32%	$170,051 to $215,950	$34,648 plus 32% of the amount over $170,050
35%	$215,951 to $539,900	$49,336 plus 35% of the amount over $215,950
37%	$539,901 or more	$162,718 plus 37% of the amount over $539,900

Married Filing Jointly Individual Tax Rates 2022

Tax Rate	Taxable Income Bracket	Tax Owed
10%	$0 to $20,500	10% of taxable income
12%	$20,550 to $83,350	$2,055 plus 12% of the amount over $20,550
22%	$83,551 to $178,150	$9,615 plus 22% of the amount over $83,550
24%	$178,151 to $340,100	$30,427 plus 24% of the amount over $178,150
32%	$340,101 to $431,918	$69,295 plus 32% of the amount over $340,100
35%	$431,901 to $647,850	$98,671 plus 35% of the amount over $431,900
37%	$647,851 or more	$174,254 plus 37% of the amount over $647,850

Married Filing Separately Individual Tax Rates 2022

Tax Rate	Taxable Income Bracket	Tax Owed
10%	$0 to $10,275	10% of taxable income
12%	$10,276 to $41,775	$1,028 plus 12% of the amount over $10,275
22%	$41,776 to $89,075	$4,808 plus 22% of the amount over $41,775
24%	$89,076 to $170,050	$15,214 plus 24% of the amount over $89,075
32%	$170,051 to $215,950	$34,648 plus 32% of the amount over $170,050
35%	$215,951 to $323,925	$49,336 plus 35% of the amount over $215,950
37%	$323,925 or more	$87,127 plus 37% of the amount over $539,900

House of Household Individual Tax Rates 2022

Tax Rate	Taxable Income Bracket	Tax Owed
10%	$0 to $14,650	10% of taxable income
12%	$14,651 to $55,900	$1,465 plus 12% of the amount over $14,200
22%	$55,901 to $89,050	$6,415plus 22% of the amount over $55,900
24%	$89.051 to $170,050	$13,708 plus 24% of the amount over $89,050
32%	$170,051 to $215,950	$33,148 plus 32% of the amount over $170,050
35%	$215,951 to $539,900	$47,836 plus 35% of the amount over $215,950
37%	$539,901 or more	$161,219 plus 37% of the amount over $539,900

Individual Tax Rates for 2023

Single Filers Individual Tax Rates 2023

Tax Rate	Taxable Income Bracket	Tax Owed
10%	$0 to $11,000	10% of taxable income
12%	$11,000 to $44,725	$1,100 plus 12% of the amount over $11,000
22%	$44,726 to $95,237	$5,147 plus 22% of the amount over $44,725
24%	$95,376 to $182,100	$16,290 plus 24% of the amount over $95,375
32%	$182,101 to $231,250	$37,104 plus 32% of the amount over $182,100
35%	$231,251 to $578,125	$52,832 plus 35% of the amount over $231,250
37%	$578,126 or more	$174,238 plus 37% of the amount over $578,125

Married Filing Jointly Individual Tax Rates 2023

Tax Rate	Taxable Income Bracket	Tax Owed
10%	$0 to $22,000	10% of taxable income
12%	$22,001 to $89,450	$2,200 plus 12% of the amount over $22,000
22%	$89,451 to $190,750	$10,294 plus 22% of the amount over $89,450
24%	$190,751 to $364,200	$32580 plus 24% of the amount over $190,750
32%	$364,201 to $462,500	$74,208 plus 32% of the amount over $364,200
35%	$462,501 to $693,750	$105,664 plus 35% of the amount over $462,500
37%	$693,751 or more	$186,602plus 37% of the amount over $693,750

Married Filing Separately Individual Tax Rates 2023

Tax Rate	Taxable Income Bracket	Tax Owed
10%	$0 to $10,275	10% of taxable income
12%	$14,651 to $41,775	$1,028 plus 12% of the amount over $10,275
22%	$41,776 to $89,075	$4,808 plus 22% of the amount over $41,775
24%	$89,076 to $170,050	$15,214 plus 24% of the amount over $89,075
32%	$170,051 to $215,950	$34,648 plus 32% of the amount over $170,050
35%	$215,951 to $323,925	$49,336 plus 35% of the amount over $215.950
37%	$323,926 or more	$87,127 plus 37% of the amount over $323,925

House of Household Individual Tax Rates 2023

Tax Rate	Taxable Income Bracket	Tax Owed
10%	$0 to $14,650	10% of taxable income
12%	$14,651 to $55,900	$1,465 plus 12% of the amount over $14,650
22%	$55,901 to $89,050	$6,415 plus 22% of the amount over $55,900
24%	$89,051 to $170,050	$13,708 plus 24% of the amount over $89,050
32%	$170,051 to $215,950	$33,148 plus 32% of the amount over $170,050
35%	$215,951 to $539,900	$47,836 plus 35% of the amount over $215,950
37%	$539,901 or more	$161,219 plus 37% of the amount over $539,900