

American Tax Club, Inc.
(AMERITAX)

2022

Annual Federal Tax Refresher Course
(AFTR)

Annual Filing Season Program (AFSP)

DOMAIN 1 – NEW TAX LAW AND RECENT UPDATES

Objectives:

After completing this domain, you will be able to:

- Answer questions about annual inflation adjustments
 - Learn the major tax changes affecting the tax year 2022.
 - Determine the status of tax extenders
- 1.1 Annual Inflation Adjustments
 - 1.2 New Standard Mileage Provisions
 - 1.3 Third Party Network Transactions (Form 1099-K)

Domain 1 – New Tax Law and Recent Updates

Domain 1 of the Annual Federal Tax Refresher (AFTR) course covers new tax law and recent updates for the 2023 filing season.

Objectives

Domain 1 of the course reviews important tax law changes and updates. It is important for tax return preparers to review changes and updates each year in order to prepare accurate returns for taxpayers.

The objectives of Domain 1 are to:

- Review annual inflation and cost of living adjustments
- Tax Rate Schedules
- Capital Gain Rates
- Standard Deduction amounts Review new standard mileage rates
- Review change in reporting requirements for Third Party Network Transactions

1.1 Annual Inflation Adjustments

Each year, the Internal Revenue Service (IRS) adjusts more than 40 tax provisions, including tax rate schedules, exemption amounts, filing thresholds, and other tax changes for inflation. This helps taxpayers so they are not pushed into a higher tax bracket due to inflation.

For tax year 2022, Revenue Procedure 2021-45 provides details about these adjustments.

Individual Tax Rates – Single [Unmarried Individuals (other than Surviving Spouse and Heads of Household)]

For tax year 2022, the tax rates for individuals filing as “Single” are shown in the table below.

Taxable Income	Tax Rate
\$0 - \$10,275	10% of taxable income
\$10,276 - \$41,775	\$1,027.50 + 12% of excess over \$10,275
\$41,776 - \$89,075	\$4,807.50 + 22% of excess over \$41,775
\$89,076 - \$170,050	\$15,213.50 + 24% of excess over \$89,075
\$170,051 - \$215,950	\$34,647.50 + 32% of excess over \$170,050
\$215,951 - \$539,900	\$49,333.50 + 35% of excess over \$215,950
Over \$539,900	\$162,718.00 + 37% of excess over \$539,900

Individual Tax Rates - Head of Household

For tax year 2022, the tax rates for individuals filing as “Head of Household” are shown in the table below.

Taxable Income	Tax Rate
\$0 - \$14,650	10% of the taxable income
\$14,651 - \$55,900	\$1,465 + 12% of excess over \$14,650
\$55,901 - \$89,050	\$6,415 + 22% of excess over \$55,900
\$89,051 - \$170,050	\$13,708 + 24% of excess over \$89,050
\$170,501 - \$215,950	\$33,148 + 32% of excess over \$170,050
\$215,951 - \$539,900	\$47,836 + 35% of excess over \$215,950
Over \$539,900	\$161,218.50 + 37% of excess over \$539,900

Individual Tax Rates – Married Filing Jointly

For tax year 2022, the tax rates for married individuals filing joint returns are shown in the table below. This chart also applies to individuals filing as a “Surviving Spouse.”

Taxable Income	Tax Rate
\$0 - \$20,550	10% of taxable income
\$20,551 - \$83,550	\$2,055 + 12% of excess over \$20,550
\$83,551 - \$178,150	\$9,615 + 22% of excess over \$83,550
\$178,151 - \$340,100	\$30,427 + 24% of excess over \$178,150
\$340,101 - \$431,900	\$69,295 + 32% of excess over \$340,100
\$431,901 - \$647,850	\$98,671 + 35% of excess over \$431,900
Over \$647,850	\$174,253.50 + 37% of excess over \$647,850

Individual Tax Rates – Married Filing Separately

For tax year 2022, the tax rates for married individuals filing separate returns are shown in the table below.

Taxable Income	Tax Rate
\$0 - \$10,275	10% of taxable income
\$10,275 - \$41,775	\$1,027.50 + 12% of excess over \$10,275
\$41,776 - \$89,075	\$4,807.50 + 22% of excess over \$41,775
\$89,076 - \$170,050	\$15,213.50 + 24% of excess over \$89,075
\$170,051 - \$215,950	\$34,647.50 + 32% of excess over \$170,500
\$215,951 - \$323,925	\$49,335.50 + 35% of excess over \$215,950
Over \$323,925	\$87,126.75 + 37% of excess over \$323,925

Capital Gains Tax Rates

Long-term capital gains rates have been indexed for the 2022 tax year. The 2022 long-term capital gains rates are shown in the table below.

	Rate Single	MFJ HOH	MFS
0%	\$0 - \$41,675	\$0 - \$83,350	\$0 - \$55,800
15%	\$0 - \$41,675	\$0 - \$55,800	\$0 - \$41,675
	\$41,676 - \$459,750	\$83,351 - \$517,200	\$55,801 - \$488,500
	\$41,676 - \$258,600		
20%	\$459,751 +	\$517,201 +	\$488,501+ \$258,601+

Unrecaptured §1250 real property gain is taxed at a maximum 25% rate.

The capital gain rate for §1202 qualified small business stock and collectibles remains at 28% for tax year 2022.

Filing Requirements

Residents and citizens of the U.S. generally must file a tax return based upon three factors:

- Gross Income
- Filing Status
- Age

Gross income includes all income received in the form of money, goods, property, and services that is not exempt from tax. Gross income also includes income from sources outside the United States.

The 2022 filing requirements are show in the table below:
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Filing Status Age at end of 2022 Return must be filed if gross income was at least

Single Under 65 \$12,950 65 or older \$14,700

Married Filing Jointly Under 65 (both spouses) \$25,900

65 or older (one spouse) \$27,300

65 or older (both spouses) \$28,700

Married Filing Separately Any age \$5

Head of Household Under 65 \$19,400 65 or older \$21,150

Qualifying Widow(er) Under 65 \$25,900 65 or older \$27,300

Some exceptions:

- If a taxpayer can be claimed as a dependent of another, the income threshold is generally lower than gross income listed in the above table.
- Self-employed taxpayers must file a tax return (and pay SE tax) if net income is more than \$400.
- Special rules apply for dependent children with investment income and taxpayers who are blind.
- If any member of the tax household was enrolled in coverage through the Health Insurance Marketplace, the coverage will be reported on Form 1095-A and a tax return must be filed to reconcile the premium tax credit.

Filing Requirements for Single Dependents

Use the following chart to determine if an unmarried dependent is required to file a 2022 federal tax return.

Single dependents who are under age 65 and not blind must file a return if:

- Unearned income was more than \$1,150
- Earned income was more than \$12,950
- Gross income was more than the larger of:
 - \$1,150 or Earned income (up to \$12,550) + \$400
- Net earnings from self-employment are \$400 or more

Single dependents who are either age 65 or older or blind must file a return if:

- Unearned income was more than \$2,900 (\$4,650 if age 65 or older and blind)
- Earned income was more than \$14,700 (\$16,450 if age 65 or older and blind)
- Gross income was more than the larger of:
 - \$2,900 (\$4,650 if age 65 or older and blind)
- Earned income (up to \$12,450) + \$2,100 (\$3,850 if age 65 or older and blind)

Filing Requirements for Married Dependents

Use the following chart to determine if a married dependent is required to file a 2022 federal tax return.

<p>Married dependents who are under age 65 and not blind must file a return if:</p>
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- Unearned income was more than \$1,150
- Earned income was more than \$12,950
- Gross income was at least \$5 and spouse files a separate return and spouse itemizes deductions
- Gross income was more than the larger of:
 - \$1,150
 - Earned income (up to \$12,550) + \$400

<p>Married dependents who are either age 65 or older or blind must file a return if:</p>

- Unearned income was more than \$2,550 (\$3,950 if age 65 or older and blind)
- Earned income was more than \$14,300 (\$15,700 if age 65 or older and blind)
- Gross income was at least \$5 and spouse files a separate return and spouse itemizes deductions
- Gross income was more than the larger of:
 - \$2,550 (\$3,950 if age 65 or older and blind)
 - Earned income (up to \$12,550) + \$1,750 (\$3,150 if age 65 or older and blind)

Standard Deduction

For 2022, the standard deduction amount has been raised for most taxpayers.

Filing Status	2022	2021
Single	\$12,950	\$12,550
Head of Household	\$19,400	\$18,800
Married Filing Jointly	\$25,900	\$25,100
Qualifying Widow(er)	\$25,900	\$25,100
Married Filing Separately	\$12,950	\$12,550

The standard deduction is \$12,950 for single taxpayers, \$25,900 for married taxpayers filing jointly, \$25,900 for qualifying widows or widowers, \$19,400 for taxpayers filing Head of Household, and \$12,950 for taxpayers filing as Married Filing Separately. The standard deduction amount might be increased for taxpayers who are blind or age 65 or older.

Alternatively, taxpayers who can be dependents of another will have a reduction in their standard deduction.

The additional standard deduction for individuals 65 years or older, or blind, is:

- \$1,750 for taxpayers filing Single
- \$1,750 for taxpayers filing Head of Household
- \$1,400 for taxpayers filing either Married Filing Jointly or as Qualifying Widow(er)

Standard Deduction for Dependents

The standard deduction for individuals who may be claimed as a dependent by another taxpayer cannot exceed the greater of:

- \$1,150
- Sum of earned income and \$400 (but not more than the regular standard deduction amount, generally \$12,950)

Example:

Amy, a high school student, is 17 years old and single. Her parents can claim her as a dependent on their 2022 federal tax return. Amy has a part-time job at a local bookstore and earned \$2,000 in wages for the year.

Considering that Amy is not blind, her standard deduction would be \$2,400 (\$400 + earned income of \$2,000).

Example:

Mike, age 18, is single and can be claimed as a dependent on his parents' 2022 federal tax return. During 2022, Mike worked part-time delivering newspapers, earning \$250 for the year. He also earned \$1,500 in interest income.

Because Mike is not blind, his standard deduction for 2022 is \$1,150, which is greater than the sum of his earned income and \$400 (\$250 + \$400 = \$650). The interest income is not considered because it is not earned income.

Child Tax Credit

The Tax Cuts and Jobs Act of 2017 (TCJA) increased the amount of the Child Tax Credit and threshold amounts for phaseouts.

For tax years 2018 through 2025, the Child Tax Credit is increased from

\$1,000 to \$2,000 per qualifying child under age 17; however, this Child Tax Credit is available only if the taxpayer provides a valid Social Security Number for the qualifying child on the tax return.

Threshold amounts at which the Child Tax Credit phaseout have been increased substantially. The phaseout amounts for tax years 2018 through 2025 are:

- \$400,000 MAGI for married taxpayers filing jointly
- \$200,000 MAGI for all other filing statuses These threshold amounts are not indexed for inflation.

The amount of the Child Tax Credit that is refundable is increased to \$1,500 per qualifying child for tax year 2022. Earned income threshold amounts used to determine the refundable portion was lowered from \$3,000 to \$2,500.

Earned Income Credit

The Earned Income Tax Credit (EITC) is a refundable credit that reduces or eliminates the taxes paid by low-income workers. To claim the credit, the taxpayers must have earned income of less than \$59,187 during the year.

To claim the credit, the taxpayers must file a tax return even if they are not required to file or do not owe any tax and they meet all the rules for taking the credits. For tax year 2022, many of the rules remain unchanged; however, the amounts used to determine eligibility and the amount of the credit have changed.

Childless workers must be at least 25, but not 66 or older, to claim the credit in 2022.

The following table shows the inflation adjustments for EITC for tax year 2022 as published in Rev. Proc. 2021-45:

Item	None	One	Two	Three or more
Earned Income Amount	\$7,320	\$10,980	\$15,410	\$15,410
Maximum Amount of Credit	\$560	\$3,733	\$6,164	\$6,935
Threshold Phaseout Amount (Single, Surviving Spouse, or Head of Household)	\$9,160	\$20,130	\$20,130	\$20,130
Completed Phaseout Amount (Single, Surviving Spouse, or Head of Household)	\$16,480	\$43,492	\$49,399	\$53,057
Threshold Phaseout Amount (Married Filing Jointly)	\$15,290	\$26,260	\$26,260	\$26,620
Completed Phaseout Amount (Married Filing Jointly)	\$22,610	\$49,622	\$55,529	\$59,187

The investment income limitation for tax year 2022 was increased by the ARPA. To claim EITC, taxpayers must have \$10,300 or less in investment income. For most taxpayers, investment income is the sum of taxable and tax-exempt interest, dividend income, and capital gain net income. If taxpayers file Schedule E, Form 4797, Form 8814, or report income on Forms 1040 or 1040-SR, Schedule 1, line 8, for rental of personal property, review IRS Publication 596.

Adoption Credit

For tax year 2022, the maximum Adoption Credit has been raised to \$14,890 per qualifying child.

The amount of the Adoption Credit begins to be phased out when the 2022 modified adjusted gross income (MAGI) reaches \$223,410 and is eliminated at \$263,410

Educator Expenses

For 2022, an eligible educator can deduct up to \$300 of qualifying expenses. If they are married and file a joint return with another eligible educator, the limit rises to \$600. But in this situation, not more than \$300 for each spouse.

Qualified Small Employer Health Reimbursement Arrangement

Revenue Procedure 2021-45:

For taxable years beginning in 2022, to qualify as a qualified small employer health reimbursement arrangement under § 9831(d), the arrangement must provide that the total amount of payments and reimbursements for any year cannot exceed \$5,450 (\$11,050 for family coverage).

Health Savings Accounts (HSAs)

Revenue Procedure 2021-25:

This revenue procedure provides the 2022 inflation adjusted amounts for Health Savings Accounts (HSAs) as determined under § 223 of the Internal Revenue Code and the maximum amount that may be made newly available for excepted benefit health reimbursement arrangements (HRAs)

Annual contribution limitation. For calendar year 2022, the annual limitation on deductions under § 223(b)(2)(A) for an individual with self-only coverage under a high deductible health plan is \$3,650. For calendar year 2022, the annual limitation on deductions under § 223(b)(2)(B) for an individual with family coverage under a high deductible health plan is \$7,300.

High deductible health plan. For calendar year 2022, a “high deductible health 2 plan” is defined under § 223(c)(2)(A) as a health plan with an annual deductible that is not less than \$1,400 for self-only coverage or

\$2,800 for family coverage, and the annual out-of-pocket expenses (deductibles, co-payments, and other amounts, but not premiums) do not exceed \$7,050 for self-only coverage or \$14,100 for family coverage.

For plan years beginning in 2022, the maximum amount that may be made newly available for the plan year for an excepted benefit HRA under § 54.9831-1(c)(3)(viii) is \$1,800. See § 54.9831-1(c)(3)(viii)(B)(1) for further explanation of this calculation.

The annual “catch-up” contribution amount for individuals age 55 or older will remain \$1,000.00.

IRAS (contributions, deductions, distributions and 10% penalty)

Notice 2021-61

The contribution limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is increased to \$20,500, up from \$19,500.

The income ranges for determining eligibility to make deductible contributions to traditional Individual Retirement Arrangements (IRAs), to contribute to Roth IRAs, and to claim the Saver's Credit all increased for 2022.

Taxpayers can deduct contributions to a traditional IRA if they meet certain conditions. If during the year either the taxpayer or the taxpayer's spouse was covered by a retirement plan at work, the deduction may be reduced, or phased out, until it is eliminated, depending on filing status and income.

Here are the phase-out ranges for 2022:

For single taxpayers covered by a workplace retirement plan, the phase-out range is increased to \$68,000 to \$78,000, up from \$66,000 to \$76,000.

For married couples filing jointly, if the spouse making the IRA contribution is covered by a workplace retirement plan, the phase-out range is increased to \$109,000 to \$129,000, up from \$105,000 to \$125,000.

For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the phase-out range is increased to \$204,000 to \$214,000, up from \$198,000 to \$208,000.

For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is not subject to an annual cost-of-living adjustment and remains \$0 to \$10,000.

More Annual Inflation Amounts

Many more items were adjusted for inflation. These items are described in Rev. Proc. 2021-45 and many inflation adjustments will be reflected in Domains 2 and 3 of this course.

1.2 New Standard Mileage Provisions

Before July 1, 2022 the standard mileage rate for businesses travel is 58.5 cents per mile.

For the final 6 months of 2022, the standard mileage rate for business travel will be 62.5 cents per mile, up 4 cents from the rate effective at the start of the year. The new rate for deductible medical or moving expenses (available for active-duty members of the military) will be 22 cents for the remainder of 2022, up 4 cents from the rate effective at the start of 2022. These new rates become effective July 1, 2022.

The IRS provided legal guidance on the new rates in Announcement 2022-13.

In recognition of recent gasoline price increases, the IRS made this special adjustment for the final months of 2022.

The IRS normally updates the mileage rates once a year in the fall for the next calendar year. For travel from January 1 through June 30, 2022, taxpayers should use the rates set forth in Notice 2022-03.

Prior to Notice 2022-03, the IRS issued Rev. Proc. 2019-46 in November of 2019 to reflect provisions changed by the Tax Cuts and Jobs Act (TCJA). Some of the key provisions that were updated at that time include:

- Taxpayers cannot claim a miscellaneous itemized deduction using the business standard mileage rate.
- Taxpayers cannot claim parking and tolls attributable to the taxpayer's use of an automobile for business purposes as a miscellaneous itemized deduction.
- Taxpayers must reduce basis of automobiles used in business by the depreciation claimed or allowable for the automobile. If the business standard mileage rate is used, a per-mile amount will be considered to be depreciation claimed or allowable.
- Deductions for moving expense are not allowed unless the taxpayer is a member of the Armed Forces on active duty moving pursuant to a military order and incident to a permanent change of station.

Effective July 1, 2022, the standard mileage rate for business use is 62.5 cents per mile. The standard mileage rate for charitable miles is 14 cents per mile. Costs for medical miles can be calculated at 18 cents per mile. Members of the Armed Forces on active duty who moved pursuant to a military order and incident to a permanent change of station can use the standard mileage rate of 18 cents per mile for moving expenses reported on Form 3903.

1.3 Third Party Network Transactions (Form 1099-K)

A payment settlement entity (PSE) is a domestic or foreign entity that is a merchant acquiring entity. In other words, a PSE is a bank or other organization that has the contractual obligation to make payment to participating payees in settlement of payment card transactions; or a PSE can be a third-party settlement organization (TPSO), meaning a central organization that has the contractual obligation to make payments to participating payees of third-party network transactions. Examples include PayPal, Venmo, and CashApp, as well as other payment facilitators and marketplaces.

A payment settlement entity must file Form 1099-K, Payment Card and Third-Party Network Transactions, for payments made in settlement of reportable payment transactions for each calendar year. A reportable “payment in settlement of a reportable payment transaction” is defined by the IRS as any payment card or third-party network transaction in which the PSE submits the instruction to transfer funds to the account of the participating payee to settle the reportable payment transaction.

The reporting requirement for these transactions has changed from annual totals exceeding \$20,000 to those exceeding \$600, regardless of the total number of transactions.

Question review for Domain 1:

John is 67 years old, single, and legally blind with no dependents. Which of the following is the standard deduction he may claim in 2022?

- a) \$12,950.00
- b) \$19,400.00
- c) \$14,700.00
- d) \$16,450.00

Question review for Domain 1 – Answer Key:

1. John is 67 years old, single, and legally blind with no dependents. Which of the following is the standard deduction she may claim in 2022?

- a. \$12,950

Incorrect. This would be John's standard deduction if she were not blind or age 65 or older.

- b. \$19,400

Incorrect. This would be John's standard deduction if she were filing as head of household, not over 65 nor blind.

- c. \$14,700

Incorrect. This would be John's standard deduction if she were either blind or age 65 or older, not both.

- d. **\$16,450**

Correct! John's standard deduction is \$12,950 plus \$1,750 for blindness and \$1,750 for being age 65 or older.