# Supplement to J. K. Lasser’s 1,001 Deductions and Tax Breaks 2022

###### **By Barbara Weltman**

Tax law is not static and new legislation, IRS pronouncements, and court decisions continue to tweak tax rules. They affect reporting on 2021 returns as well as tax planning for 2022 and beyond.

The Infrastructure Investment and Jobs Act of 2021 was signed into law on November 15, 2021. It did not make any income tax changes for individuals for 2021 or 2022. It introduced reporting requirements for digital transactions, but this begins for transactions in 2023. The Build Back Better Act failed to pass Congress before the end of 2021. Whether and to what extent it may be enacted in 2022 remains to be seen. Most provisions were not set to apply in 2021, but if there is a renewed push for legislation, watch for possible changes for 2022 that may impact estimated taxes.

The changes presented in this Supplement occurred after November 1, 2021, when this book was published. The changes are listed according to the chapters in which the subject matters appear.

***Introduction***

***Above-the-line deductions.*** For 2022, the above-the-line deduction for educator expenses is up to $300 (up from $250 in 2021).

***Standard deduction amounts.*** The basic standard deduction amounts are increased in 2022 due to cost-of-living adjustments as follows:

* Married filing jointly and surviving spouses: $25,900 (up from $25,100).
* Heads of households: $19,400 (up from $18,800).
* Singles and married filing separately: $12,950 (up from $12,550).

*Additional standard deduction amounts.*For 2022, the additional standard deduction amount for age and/or blindness slightly to $1,750 for single filers and heads of households and $1,400 for married filers (filing jointly or separately) and surviving spouses; each amount is $50 more than in 2021.

## Chapter 1—Your Family

***Dependents.*** While the personal and dependency exemptions are not deductible in 2018 through 2025, the definition of dependent continues to apply for various tax breaks (e.g., child tax credit; head of household status). In determining dependent status for 2022, a person can be your qualifying relative only if he or she has gross income below $4,400 (up from $4,300 in 2021).

***Child tax credit.*** The IRS issued extensive FAQs (<https://www.irs.gov/newsroom/irs-updates-faqs-for-2021-child-tax-credit-and-advance-child-tax-credit-payments>) on the 2021 child tax credit and advance child tax credit to help you file your 2021 return. The FAQs cover 13 topics, from general information to returning a payment.

 In January 2022, the IRS sent Letter 6419 (<https://www.irs.gov/newsroom/irs-issues-information-letters-to-advance-child-tax-credit-recipients-and-recipients-of-the-third-round-of-economic-impact-payments-taxpayers-should-hold-onto-letters-to-help-the-2022-filing-season>) to those who received advance child tax credit payments. You need to know the amount of advance payments to figure eligibility for the 2021 child tax credit (Schedule 8812).

***Earned income credit.*** The earned income credit amounts, including adjusted gross income limits, have been increased for 2022. As a result, the maximum earned income credit in 2022 is $3,733 for one qualifying child, $6,164 for two qualifying children, $6,935 for three or more qualifying children, and $560 for a taxpayer with no qualifying child.

 The earned income credit cannot be claimed if investment income exceeds a set amount. For 2022, the limit is $10,300 (up from $10,000 in 2021).

***Dependent care credit.*** The refundable dependent care credit expired at the end of 2021; it has not yet been extended. Information in the book applies to figuring the credit for the 2021 return. In figuring estimated taxes for 2022, old dependent care credit rules apply.

***Adoption credit.*** The adoption credit limit increases to $14,890 for 2022 (up from $14,440 in 2021). The modified adjusted gross income limits on eligibility for the credit have also been increased slightly for 2022.

***Alimony.*** Payments under pre-2019 divorce decrees and separation agreements may be deductible by the party making the payments (and are taxable to the recipient). The Tax Court made it clear that paying health insurance premiums for an ex-spouse through a cafeteria plan may qualify as deductible alimony, even though the payments are made on a pre-tax basis (a double tax benefit).

## Chapter 2—Medical Expenses

***Premium tax credit.*** This refundable tax credit, which continues to apply despite repeal of the individual mandate, is designed to help individuals pay for the cost of health coverage for themselves and their dependents. To be eligible for the premium tax credit, your household income must be at least 100%, but usually no more than 400% of the federal poverty line for your family size (those above 400% may still claim the credit in 2022). Eligibility for the credit in 2022 is based on 2021 federal poverty guidelines for the 48 contiguous states and District of Columbia as shown in the following table.

|  |  |
| --- | --- |
| Persons in the family/household | Poverty guideline (100%) |
| 1 | $12,880 |
| 2 | $17,420 |
| 3 | $21,960 |
| 4 | $26,500 |
| 5 | $31,040 |
| 6 | $35,580 |
| 7 | $40,120 |
| 8 | $44,660 |
| More than 8 | Add $4,540 for each additional person |

\*The guidelines are higher in Alaska and Hawaii; see <https://aspe.hhs.gov/poverty-guidelines>.

***Health coverage tax credit.*** This credit expired at the end of 2021; it has not yet been extended.

***Itemized medical expenses.*** For 2022, the IRS medical expense mileage rate is 18¢ per mile (up from 16¢ per mile in 2022).

***Nonqualified medical expenses.*** For 2021, marijuana prescribed by a doctor in a state where this is legal is not a deductible medical expenses for federal income tax purposes. This could change for 2022, but as of yet, marijuana, even for medical purposes, is still a controlled substance under federal law.

***Long-term care coverage.*** The portion of long-term care insurance premiums that are treated as a deductible medical expense in 2022 is the same for most groups as in 2021. The cap for those who are over age 60 but no more than age 70 and older in 2022 is $10 lower ($4,510, down from $4,520 in 2021).

***Flexible spending arrangements (FSAs).*** In 2022, the maximum salary contribution to an FSA is capped at $2,850 (up from $2,750 in 2021).

***Excepted benefit health reimbursement arrangements (EBHRAs).*** In 2022, the maximum reimbursement is limited to $1,800 (unchanged from 2021).

***QSEHRAs.*** The maximum employer reimbursement under a Qualified Small Employer Health Reimbursement Arrangement (QSEHRA) for individually-obtained health insurance in 2022 is $5,450 for self-only coverage and $11,050 for family coverage (up from $5,300 and $10,700 respectively for 2021).

***Health savings accounts (HSAs).*** The 2022 minimum and maximum amounts for high-deductible health plans (a prerequisite for HSAs) as well as contribution limits to HSAs have increased slightly:

**High-deductible health plans and HSAs for 2022**

|  |  |  |  |
| --- | --- | --- | --- |
| Type of plan | Minimum deductible under the plan | Maximum out-of-pocket costs | Maximum contribution\* |
| Self-only coverage | $1,400 | $7,050 | $3,650 |
| Family coverage | $2,800 | $14,100 | $7,300 |

\*Those age 55 or older by the end of 2022 can add another $1,000, but no contributions are allowed if enrolled in Medicare.

***Archer medical savings accounts (MSAs).*** There are still some individuals covered by these health plans. Again, contributions to MSAs can only be made for those covered by a high-deductible health plan. The limits for 2022 have increased slightly:

**High-deductible health plans for MSAs in 2022**

|  |  |  |  |
| --- | --- | --- | --- |
| Type of plan | Minimum deductible under the plan | Maximum deductible under the plan | Cap on out-of-pocket expenses |
| Self-only coverage | $2,450 | $3,700 | $4,950 |
| Family coverage | $4,950 | $7,400 | $9,050 |

***Accelerated death benefits.*** For chronically ill individuals, the daily dollar limit excludable from gross income for 2022 is $390 (down from $400 in 2021). Excess amounts are taxable to the extent they exceed actual long-term care costs.

***ABLE accounts.*** This type of savings account is designed to pay certain costs of a qualified disabled individual without costing him or her eligibility for government assistance. As of January 2022, ABLE accounts have gone live in 46 states and the District of Columbia.

***Medicare.*** The “standard” premium for Part B coverage in 2022, the premium paid by most beneficiaries, is $170.10 per month (compared with $148.50 per month for 2021). Those who fall within a “hold harmless” definition pay a lower monthly premium for 2022. The following tables (one for Part B and one for Part D) show the 2022 surcharges and total premiums for higher-income taxpayers, which are based on modified adjusted gross income (MAGI) in 2020.

**Part B Premiums for 2022:**

|  |  |  |  |
| --- | --- | --- | --- |
| ***2020 MAGI for joint filers*** | ***2020 for other filers\**** | ***Total monthly Part B premium for 2022*** | ***Total monthly Part D premium for 2022*** |
| Up to $182,000 | Up to $91,000 | $170.10 unless held harmless | Your premium |
| $182,001 but not over $228,000 | $91,001 but not over $114,000 | $238.10 | $12.40 + your premium |
| $228,001 but not over $284,000 | $114,001 but not over $142,000 | $340.20 | $32.10 + your premium |
| $284,001 but not over $340,000 | $142,001 but not over $170,000 | $442.30 | $51.70 + your premium |
| $340,001 but less than $750,000 | $170,001 but less than over $500,000 | $544.30 | $71.30 + your premium |
| $750,000 or greater | $500,000 or greater | $578.30 | $77.90 + your premium |

\* Married persons filing separately for 2020 who did not live apart for the entire year are subject to a monthly premium for 2022 of $544.30 for Part B and $71.30 for Part D if 2020 MAGI was over $91,000 and under $409,000, or $578.30 for Part B and $77.90 for Part D if 2020 MAGI was $409,000 or more.

***Medical insurance rebates.*** Private insurers paid out in 2021 about $2.1 billion in Medical Loss Ratio rebates for coverage in 2020 (down from $2.7 billion in 2020). These rebates to eligible individuals were to be paid by insurers by September 30, 2021.

## Chapter 3—Education Costs

***Student loan interest deduction.*** The modified adjusted gross income (MAGI) phaseout range for the 2022 deduction has not changed for singles: the 2022 phase-out starts at $70,000 and is completed at $85,000 (unchanged from 2021). The 2022 MAGI phase-out for joint filers starts at $145,000 and is completed at $175,000 (each up $5,000 from 2021).

***Interest on U.S. savings bonds.*** The modified adjusted gross income limits on eligibility to claim the exclusion for interest on bonds redeemed to pay qualified higher education costs have been increased slightly for 2022.

***Cancellation of a student loan.*** The exclusion from gross income for the cancellation of a student loan is not limited to those who died or are permanently disabled. The exclusion also applies to the discharge of student loans after December 31, 2020, and before January 1, 2026, for most student loans for higher education, including government loans, loans by eligible education institutions, and private education loans subject to the Truth in Lending Act. For such loans, the IRS advised lenders not to issue Form 1099-C, *Cancellation of Debt.*

**Note:** The free on repayment of certain student loans, including zero interest during the freeze, which began in March 2020, has been extended to May 1, 2022.

***ABLE accounts.*** The annual contribution limit for 2022 is $16,000 (up from $15,000 in 2021).

## Chapter 4—Your Home

***Mortgage insurance premiums.*** The ability to treat mortgage insurance premiums as deductible mortgage interest expired at the end of 2021; it has not yet been extended for 2022.

***Real estate taxes.*** A federal appellate court has decided that the state and local taxes (“SALT”) cap is constitutional.

Because the Build Back Better Act was not passed in 2021, there has been no change in the SALT cap.Legislation enacted in 2022 may provide some retroactive change, so monitor this before filing your 2021 return.

***HAF payments.*** Financially distressed homeowners who received help with paying their mortgage and property taxes now have guidance (<https://www.irs.gov/pub/irs-drop/rp-21-47.pdf>) from the IRS on how to determine what’s deductible. For 2021 through 2025, there’s a safe harbor which allows affected homeowners to deduct mortgage interest and real estate taxes up to the lesser of the sum of all payments by the homeowners’ own sources or the sum of amounts shown on Form 1098 for qualified housing expenses. HAF payments may be allocated first to expenses that are not qualified housing expenses. For example, payments may be allocated to utilities before being allocated to mortgage and/or property tax payments.

***Moving expenses.*** No deduction can be claimed for work-related moving expenses except for certain military personnel. Those who qualify can figure their move-related driving at 18¢ per mile in 2022 (up from 16¢ per mile in 2021).

***Energy improvements.*** The nonbusiness energy property tax credit for making certain energy improvements to a principal residence, such as adding insulation or installing energy-efficient windows and exterior doors expired at the end of 2021; it has not yet been extended.

***Disaster rules for casualties to your home.*** See Chapter 13.

## Chapter 5—Retirement Savings

***Traditional IRAs and Roth IRAs.*** The basic contribution limit for 2022 is $6,000, and the additional “catch-up” contribution limit is $1,000 for those who are at least 50 years old by the end of the year; both limits are unchanged from 2021. The modified adjusted gross income (MAGI) limits on eligibility to make deductible contributions to a traditional IRA are increased slightly for 2022, as are the MAGI limits for Roth IRAs.

***401(k) and similar plans.*** The elective deferral contribution limit is $20,500 (up from $19,500 in 2021). The additional contribution limit at $6,500 for those who are age 50 or older by the end of the year for 2022 is unchanged.

***Self-employed retirement plans.*** The contribution, benefit, and other limits for these plans for are increased for 2022. For example, the contribution limit for profit-sharing plans in 2022 is $61,000 (up from $58,000 in 2021).

***Simplified Employee Pension plans (SEPs).*** The contribution limit for these plans for 2022 is $61,000 (up from $58,000 in 2021). The earnings threshold for including an employee in a SEP is unchanged at $650.

***Savings Incentive Match Plans for Employees (SIMPLEs).*** The 2022 contribution limit for SIMPLEs and the additional contribution limit for those age 50 or older by the end of the year are $14,000 ($500 more than in 2021) and $3,000 respectively (unchanged from 2021).

***Retirement saver’s credit.*** The MAGI limits on eligibility to claim the retirement saver’s credit for contributions to IRAs, 401(k)s, and similar plans, as well as to ABLE accounts, have been increased for 2022.

***Coronavirus distributions.*** If qualified coronavirus distributions taken in 2020 are repaid, in whole or in part, in 2021, an amended return for 2020 must be filed.

***Disaster distributions.*** See Chapter 12.

***Chapter 6—Charitable Giving***

***Extension of charitable contribution breaks*.** The above-the-line deduction for cash donations by nonitemizers up to $300 ($600 for joint filers) expired at the end of 2021. It has not yet been extended for 2022.

***Conservation easements.*** A federal appellate court ruled invalid the IRS regulation that disallowed a deduction for a donation of a conservation easement if there was a subtraction for a post-donation improvement in the event of a judicial extinguishment ending the easement. What this means going forward is yet unclear (see the 2023 edition of this book for any update).

## Chapter 7—Your Car

***Business use of your personal car.*** The IRS announced that the standard mileage rate, used in lieu of deducting the actual costs of business driving, is 58.5 per mile in 2022 (up from 56¢ per mile in 2021). If you use the standard mileage rate, you must reduce the basis of your vehicle by 26¢ per mile in 2022 (the same as in 2021).

***Electric drive vehicles.*** The credit for 2-wheel vehicles expired at the end of 2021. It has not yet been extended.

## Chapter 8—Investing

***Taxable income breakpoints for capital gains rates.*** The following table shows the break points for capital gain rates for 2022 (this table does ***not*** apply to 2021 returns):

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Rate** | **Married filing jointly (and surviving spouse)** | **Head of household**  | **Single** | **Married filing separately** |
| 0% | Up to $83,350 | Up to $55,800 | Up to $41,675 | Up to $41,675 |
| 15% | $83,351 - $517,200 | $55,801 - $488,500 | $41,676- $459,750 | $41,676 - $258,600 |
| 20% | Over $517,200 | Over $488,500 | Over $459,750 | Over $258,600 |

Note: As previously noted, the Build Back Better Act failed to pass Congress at the end of 2021, but the latest version of the bill would NOT have increased the capital gains rate for high-income taxpayers for transactions after September 13, 2021, as had been earlier proposed. The above rates apply for 2022; the rates for 2021 are in the book.

***Gain on Opportunity Zone assets.*** The IRS has made it clear that despite the 2020 census tracts, the designations of Opportunity Zones have not changed.

***Cryptocurrency.*** Looking ahead, the Infrastructure Investment and Jobs Act of 2021, signed into law on November 15, 2021, creates a new reporting rule for digital transfers after 2022. This means transactions in 2023 will be reported by brokers to individuals.

Reminder: If you engaged in any cryptocurrency (e.g., Bitcoin) transaction in 2021, you must answer “yes” to the question on page 1 of Form 1040 or 1040-SR. A transaction includes buying or selling cryptocurrency, receiving it in exchange for goods, services, or any other property, or transferring it for free (including from an airdrop or hard fork). Instructions to the income tax return say you must answer the question; don’t leave it blank.

## Chapter 9—Travel

***Business travel per diem rates.*** For most areas within the continental United States (CONUS), the maximum federal per diem rate for travel starting October 1, 2021, through September 30, 2022 (the government’s fiscal years 2022), covering lodging and meals and incidental expenses (M&IE) within the continental United States (CONUS) in most locations is $155 per day ($96 for lodging and $59 for M&IE). The standard $96 lodging rate is unchanged from the prior fiscal year; the M&IE rate is $4 higher. The per diem rates for travel to certain areas have been increased. The rates for all areas can be found here (<https://www.gsa.gov/travel/plan-book/per-diem-rates/fy-2022-per-diem-highlights>).

The high-low substantiation rates for areas within CONUS for the period October 1, 2022, through September 30, 2022, are $296 for travel to high-cost localities and $202 for travel to all other areas within CONUS ($4 higher than the rates for fiscal year 2021). Of these rates, the meal portion has increased to $74 for high-cost areas and $64 for all other areas within CONUS. The list of high-cost areas has been changed (see Notice 2021-52 for details).

***Driving your car for medical purposes or by military personnel under certain conditions.*** The IRS standard mileage rate for 2022 is 18¢ per mile (up from 16¢ per mile in 2021).

***Frequent flyer miles.*** The IRS has not made any further determinations affecting the tax treatment of frequent flyer miles.

## Chapter 10—Real Estate

***Rental activities.*** The IRS has provided guidance (<https://www.irs.gov/pub/irs-wd/202151005.pdf>) on when net rental income for short-term rentals (e.g., 7 days) is subject to self-employment tax. If substantial services are provided, then net rental income is subject to self-employment tax. The fact that a 7-day rental is not a rental activity for purposes of the passive activity loss rules does not control for purposes of self-employment tax.

***Like-kind exchanges.*** Despite some proposals, no cap has been placed on the amount of gain eligible for deferral under the like-kind exchange rules.

***Deduction for energy-efficient commercial buildings.*** For 2022, the ability to claim a deduction for energy-efficient commercial buildings is $1.88 per square foot for an energy-efficient building (up from $1.82 per square foot in 2021). For purposes of a partial deduction, the limit is $0.63 per square foot (up from $0.61 per spare foot in 2021).

***Special breaks for certain disaster victims.*** See Chapter 4 on relief for losses on personal residences.

***Chapter 11—Borrowing and Interest***

***Home mortgage interest***. See Chapter 4.

***Student loan interest***. See Chapter 3.

***Borrowing from retirement plans***. See Chapter 5.

***Investment-related interest***. See Chapter 8.

## Chapter 12—Insurance and Catastrophes

***Disaster losses.*** The Infrastructure Investment and Jobs Act of 2021 created a new definition of “disaster.” It is “an area in which a major disaster for which the President provides financial assistance under section 408 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5174) occurs.” The reason for the change is the application of the automatic 60-day extension for completing various time-sensitive tax actions (e.g., filing returns, completing an IRA rollover).

***Accelerated death benefits.*** For chronically ill individuals, the daily dollar limit excludable from gross income for 2022 is $390 (down from $400 from 2021); excess amounts are taxable to the extent they exceed actual long-term care costs.

## Chapter 13—Your Job

***Educator expenses.*** If you are an educator, the cap on the above-the-line deduction for classroom expenses in 2022 is $300 (up from $250 in 2021).

***Union dues and uniforms.***The proposed Build Back Better Act would have allowed above-the-line deductions for up to $250 of union dues and $250 of non-reimbursed employee uniform costs paid in 2022, but the Act has not yet passed Congress. There is no union dues or uniform deduction for 2021.

***Fringe benefits.*** Note changes in dollar limits and other changes for certain employee benefits, including:

*Transportation fringe benefits.* The monthly exclusion for free parking, transit passes, and van pooling for 2022 is $280 (up from $270 in 2021).

*Adoption assistance.* The exclusion amount in 2022 for employer-provided adoption assistance is $14,890 (up from $14,440 in 2021).

*Dependent care assistance.* The cap on dependent care assistance drops for 2022 to the usual $5,000 annual limit (down from a temporary increase to $10,500 in 2021).

***Income earned abroad.*** The maximum foreign earned income exclusion for 2022 is $112,000 (up from $108,700 in 2021).

 No additional relief has been provided for 2021 from satisfying the foreign earned income rules. It appears that relief applied only for those who had to leave a foreign country due to COVID-19 before July 16, 2020.

***Wage withholding.*** If your circumstances have changed since 2021 (e.g., a spouse began to work or stopped working, you had or adopted a child), you may want to file a new withholding form (Form W-4) for 2022 to better estimate tax liability.

## Chapter 14—Your Business

***Qualified business income (QBI) deduction.*** The taxable income threshold is slightly higher for 2022, at $340,100 for joint filers and $170,050 for all other filers.

***Equipment purchases.*** Some dollar limits and percentages have changed for 2022:

* *First-year expensing.* The deduction limit for 2022 is $1,080,000. This amount begins to phase out when purchases in 2022 exceed $2,700,000.
* *Bonus depreciation.*Bonus depreciation remains at 100% for 2022. Thereafter it begins to decline so that the rate will be 80% in 2023, 60% in 2024, 40% in 2025, and 20% in 2026. (There is an additional year for property with long production periods.)

***Employment-related tax credits.*** The Indian employment is set to expire at the end of 2021

***Self-employment tax.*** The wage base for the Social Security portion of the self-employment tax in 2022 is $147,000 (up from $142,800 in 2021).

 *Reminder:* Those who opted to defer one half of Social Security tax (part of self-employment tax) for 2020 should have paid 50% of the deferred amount by the end of 2021. The other 50% is due by the end of 2022 and should be factored into estimated taxes for 2022.

***Standard mileage rate.*** The IRS announced the standard mileage rate, used in lieu of deducting the actual costs of business driving, is 58.5¢ per mile for 2022 (up from 56¢ per mile in 2021).

Those who own their vehicles and use the standard mileage rate for 2022 must reduce the vehicle’s basis by 26¢ per mile (the same as for 2021).

***Business-related tax credits.*** Various other business-related tax credits listed in Table 14.2 expired at the end of 2021.

***COVID-19 government assistance.*** The IRS has made it clear that while forgiveness of loans under the Paycheck Protection Program (PPP), as well as grants under the Shuttered Venue Operators Program and the Restaurant Revitalization Program, are not includible in gross income, they still count as gross receipts. This may impact, for example, being treated as a “small business” meeting the gross receipts test (see Chapter 2).

***Chapter 15—Miscellaneous Items***

***IRS interest rate.*** The rate for underpayments and overpayments of federal by individuals is 3% for the first quarter of 2022 (the same as the last quarter of 2021). This rate may be adjusted quarterly.

***Gifts you make.*** The annual exclusion amount for 2022 is $16,000 per recipient (up from $15,000 in 2021). Of course, the recipient can receive any amount tax free (the exclusion impacts only the gift tax, if any, owed by the person making the gift).

***Tax audits.*** The reasonable reimbursement rate for attorney’s fees in 2022 when the IRS’s position is not substantially justified and other requirements are met is $220 per hour (up from $210 per hour in 2021).

***Exemption amounts.*** The AMT exemption amounts for 2022 are:

|  |  |
| --- | --- |
| **Filing status** | **2022 exemption** |
| Married filing jointly/surviving spouse  | $118,100 |
| Single/head of household | $75,900 |
| Married filing separately | $59,050 |

*Exemption phase-out.* The exemption amounts for 2022 start to phase out when alternative minimum taxable income (AMTI) exceeds $1,079,800 for married filing jointly and surviving spouses and $539,600 for other filers.

***ABLE accounts.*** See Chapter 2.