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IRS Provides Tax Inflation Adjustments for Tax Year 2022

The Internal Revenue Service announced the tax year 2022 annual inflation adjustments for more than 60 tax provisions, including the tax rate schedules and other tax changes. Revenue Procedure 2021-45 provides details about these annual adjustments.

Highlights of changes in Revenue Procedure 2021-45:

The tax year 2022 adjustments described below generally apply to tax returns filed in 2023.

The selected tax items for tax year 2022 of greatest interest to many taxpayers include the following dollar amounts:

- **Standard Deduction:** The standard deduction for married couples filing jointly for tax year 2022 rises to \$25,900 up \$800 from the prior year. For single taxpayers and married individuals filing separately, the standard deduction rises to \$12,950 for 2022, up \$400, and for heads of households, the standard deduction will be \$19,400 for tax year 2022, up \$600.
- **Personal Exemption:** The personal exemption for tax year 2022 remains at 0, as it was for 2021, this elimination of the personal exemption was a provision in the Tax Cuts and Jobs Act (TCJA).
- **Marginal Rates:** For tax year 2022, the top tax rate remains 37% for individual single taxpayers with incomes greater than \$539,900 (\$647,850 for married couples filing jointly).

The other rates are:

35%, for incomes over \$215,950 (\$431,900 for married couples filing jointly).

32% for incomes over \$170,050 (\$340,100 for married couples filing jointly).

24% for incomes over \$89,075 (\$178,150 for married couples filing jointly).

22% for incomes over \$41,775 (\$83,550 for married couples filing jointly).

12% for incomes over \$10,275 (\$20,550 for married couples filing jointly).

The lowest rate is 10% for incomes of single individuals with incomes of \$10,275 or less (\$20,550 for married couples filing jointly).

- **Itemized Deductions Eliminated under TCJA:** For 2022, as in 2021, 2020, 2019 and 2018, there is no limitation on itemized deductions, as that limitation was eliminated by the Tax Cuts and Jobs Act.
- **Alternative Minimum Tax Exemption:** The alternative minimum tax exemption amount for tax year 2022 is \$75,900 and begins to phase out at \$539,900 (\$118,100 for married couples filing jointly for whom the exemption begins to phase out at \$1,079,800). The 2021 exemption amount was \$73,600 and began to phase out at \$523,600 (\$114,600 for married couples filing jointly for whom the exemption began to phase out at \$1,047,200).
- **Earned Income Tax Credit:** The tax year 2022 maximum earned income tax credit amount is \$6,935 for qualifying taxpayers who have three or more qualifying children, up from \$6,728 for tax year 2021. The revenue procedure contains a table providing maximum EITC amount for other categories, income thresholds and phase-outs.
- **Qualified Transportation and Parking Fringe Benefits:** For tax year 2022, the monthly limitation for the qualified transportation fringe benefit and the monthly limitation for qualified parking increases to \$280.
- **Flexible Spending Arrangements:** For the taxable years beginning in 2022, the dollar limitation for employee salary reductions for contributions to health flexible spending arrangements increases to \$2,850. For cafeteria plans that permit the carryover of unused amounts, the maximum carryover amount is \$570, an increase of \$20 from taxable years beginning in 2021.

- **Medical Savings Account:** For tax year 2022, participants who have self-only coverage in a Medical Savings Account, the plan must have an annual deductible that is not less than \$2,450, up \$50 from tax year 2021; but not more than \$3,700, an increase of \$100 from tax year 2021. For self-only coverage, the maximum out-of-pocket expense amount is \$4,950, up \$150 from 2021. For tax year 2022, for family coverage, the annual deductible is not less than \$4,950, up from \$4,800 in 2021; however, the deductible cannot be more than \$7,400, up \$250 from the limit for tax year 2021. For family coverage, the out-of-pocket expense limit is \$9,050 for tax year 2022, an increase of \$300 from tax year 2021.
- **Lifetime Learning Credit:** The modified adjusted gross income amount used by joint filers to determine the reduction in the Lifetime Learning Credit provided in IRC § 25A(d)(2) is not adjusted for inflation for taxable years beginning after December 31, 2020. The Lifetime Learning Credit is phased out for taxpayers with modified adjusted gross income more than \$80,000 (\$160,000 for joint returns).
- **Foreign Earned Income Exclusion:** For tax year 2022, the foreign earned income exclusion is \$112,000 up from \$108,700 for tax year 2021.
- **Estate Basic Exclusion Amount:** Estates of decedents who die during 2022 have a basic exclusion amount of \$12,060,000, up from a total of \$11,700,000 for estates of decedents who died in 2021.
- **Annual Exclusion for Gifts:** The annual exclusion for gifts increases to \$16,000 for calendar year 2022, up from \$15,000 for calendar year 2021.
- **Qualified Adoption Expenses:** The maximum credit allowed for adoptions for tax year 2022 is the amount of qualified adoption expenses up to \$14,890, up from \$14,440 for 2021.

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