What's The Buzz *NEWSLETTER*

APRIL 2022

Page 1

- Intro Message
- Tax Tables

Page 2

- Tax Tables Cont.
- Planning Ahead

Page 3+

- Reducing Taxable Income
- Business Basics – Tax Tips for Self-employment

WE MADE IT!! This was by far the hardest tax season to date. Over the course of the year, we could already see some issues arising we knew would have to contend with come tax season, but the issues we were not prepared for, were doozies! However, we are always incredibly thankful for our clients that continue to return year after year and know we have their best interest in mind even when things are moving slower than planned. Cheers to another year down!

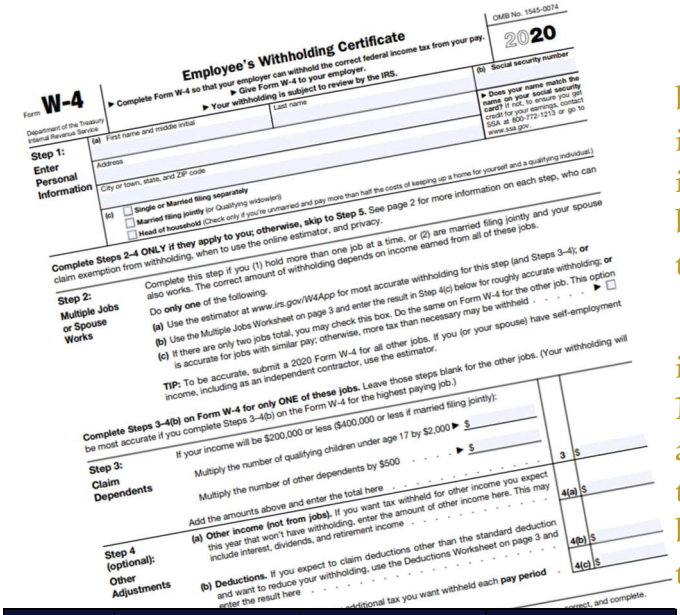
-Busy Bee Accounting Team

Tax tables and how they affect your withholdings:

2018 Tax Brackets (2017 in gray text)

Rate	For Single Individuals, Taxable Income Over	For Married Individuals Filing Joint Returns, Taxable Income Over	For Heads of Households, Taxable Income Over
10%	$0-$9,325	$0-$18,650	$0-$13,350
12%	9,525	19,050	13,600
15%	$9,326-$37,950	$18,651 - $75,900	$13,351 - $50,800
22%	$38,700	$77,400	$51,800
25%	$37,951 - $91,900	$75,901 - $153,100	$50,801 - $131,200
24%	$82,500	$165,000	$82,500
28%	$91,901 - $191,650	$153,101 - $233,350	$131,201 - $212,500
32%	$157,500	$315,000	$157,500
33%	$191,651 - $416,700	$233,351 - $416,700	$212,501 - $416,700
35%	$200,000	$400,000	$200,000
35%	$416,701 - $418,400	$416,701 - $470,700	$416,701 - $444,550
37%	$500,000	$600,000	$500,000
39.6%	$418,401 or more	$470,701 or more	$444,551 or more

2017 was the last year with several midlevel income brackets. That meant that even if you earned a little more in that year, the difference in the percentages used to calculate taxable income were smaller and therefore your jump in taxes owed was smaller. It was also the last year that W2 employees could use exemptions causing large differences in withholdings versus the taxable amounts of income a taxpayer earned. As years have gone on this has only become more complex and as tax brackets are adjusted for inflation and average earnings, more and more taxpayers are seeing taxes due at the end of the year.


Form W-4 Employee's Withholding Certificate OMB No. 1545-0074 2020

Department of the Treasury Internal Revenue Service

▶ Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay.
▶ Give Form W-4 to your employer.
▶ Your withholding is subject to review by the IRS.

Step 1: Enter Personal Information
(a) First name and middle initial | Last name | (b) Social security number
Address
City or town, state, and ZIP code
(c) ☐ Single or Married filing separately
☐ Married filing jointly (or Qualifying widow(er))
☐ Head of household (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)

Complete Steps 2–4 ONLY if they apply to you; otherwise, skip to Step 5. See page 2 for more information on each step, who can claim exemption from withholding, when to use the online estimator, and privacy.

Step 2: Multiple Jobs or Spouse Works
Complete this step if you (1) hold more than one job at a time, or (2) are married filing jointly and your spouse also works. The correct amount of withholding depends on income earned from all of these jobs.
Do only one of the following.
(a) Use the estimator at www.irs.gov/W4App for most accurate withholding for this step (and Steps 3–4); or
(b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below for roughly accurate withholding; or
(c) If there are only two jobs total, you may check this box. Do the same on Form W-4 for the other job. This option is accurate for jobs with similar pay; otherwise, more tax than necessary may be withheld . . . . ▶ ☐
TIP: To be accurate, submit a 2020 Form W-4 for all other jobs. If you (or your spouse) have self-employment income, including as an independent contractor, use the estimator.

Step 3: Claim Dependents
Complete Steps 3–4(b) on Form W-4 for only ONE of these jobs. Leave those steps blank for the other jobs. (Your withholding will be most accurate if you complete Steps 3–4(b) on the Form W-4 for the highest paying job.)
If your income will be $200,000 or less ($400,000 or less if married filing jointly): ▶ $
Multiply the number of qualifying children under age 17 by $2,000 ▶ $ | 3 $
Multiply the number of other dependents by $500 . . . . . | 3 $
Add the amounts above and enter the total here | 4(a) $

Step 4 (optional): Other Adjustments
(a) Other income (not from jobs). If you want tax withheld for other income you expect this year that won't have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income . . . . . | 4(a) $
(b) Deductions. If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here . . . . . | 4(b) $
(c) Extra withholding. Enter any additional tax you want withheld each pay period . . . . . | 4(c) $

Step 5: Sign Here
Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete.

2020 Tax Rates	Single Taxable income up to	Married Filing Joint	Head of Household
10%	$9875	$19750	$14,100
12%	$40,125	$80,250	$53,700
22%	$85,525	$171,050	$85,500
24%	$163,300	$326,600	$163,300
32%	$207,350	$414,700	$207,350
35%	$518,400	$622,050	$518,400
37%	$518,401+	$622,051+	$518401+

From 2018 forward, the number of tax brackets have been reduced and the amounts of income each bracket covers have continued to increase. For taxpayers on the cusp of the next bracket, this can cause even a small increase in income to create a huge jump in what amount is taxable.

In 2020, along with another increase in the income between tax table brackets came a new W-4 Employee's Withholding Certificate form which although it is easier to understand, it made estimating the amounts needing to be withheld for your tax bracket harder to calculate leading even more taxpayers to under withhold throughout the year and causing a larger number of taxpayers to owe.

If you are one of those people or are on the cusp of another tax bracket, we always recommend tax planning before it is too late to make changes. The tax brackets and general deductions are as follows. For general ways you can reduce your federally taxable income, see the following section.

Planning Ahead for 2022

The standard deduction for all filing levels will rise in 2022.

Single- $12,950

HOH- $19,400

MFJ- $25,900

2022 Tax Rates	Single Taxable income up to	Married Filing Joint
10%	$10,275	$20,550
12%	$41,775	$83,550
22%	$89,075	$178,150
24%	$170,050	$340,100
32%	$215,950	$431,900
35%	$539,900	$647,800
37%	$539,901+	$647,801+

Tricks to Reducing Your Taxable Income

W-4 WITHHOLDING

If you are a W-2 employee, you control the amount of your withholdings and are responsible for making sure those withholdings are covering your tax liability. For instance, if you know your gross income for the year puts you in the 22% tax bracket, make sure your withholdings cover that percentage of your pay.

IRA CONTRIBUTIONS

IRA Contributions are tax beneficial events but affect your taxes differently depending on your type of IRA. Traditional IRA contributions use pre-tax dollars and are tax deductible but have limits as to how much you can contribute and at what age you may no longer contribute. Once distributions are taken from a traditional IRA, they become taxable and by age 72 Required Minimum Distributions are mandatory by IRS rules. Roth IRA contributions are post-tax dollar contributions and are therefore nontaxable when distributed later. Although Roth IRA contributions are not tax deductible, there are no RMD requirements or age limits to which a contributor must adhere.

401(K) CONTRIBUTIONS

Make the most of your money by stashing your earnings in a 401(k). 401(k) contributions are not tax deductible, but they allow an individual to fund their retirement using pre-tax dollars which can reduce tax liability and the amount of income subject to withholdings. For example, if you are sending 10% of each paycheck to your 401(k), the amount subject to income tax withholding each pay period is reduced by 10% because your contribution is sent pre-tax thus reducing your overall income subject to income taxes.

HSAs & FSAs

Health Savings Accounts or HSA contributions are not subject to federal income taxes and distributions are tax-free if the distributions are used for qualified medical expenses. Contributions will rollover into the next year if the money is not spent. However, you must have a high deductible health plan (HDHP) to qualify.

Flexible Spending Accounts (FSAs) are also health-related cost savings plans used to cover costs not included within an insurance plan. Contributions are pretax and therefore reduces taxable wages but unlike HSAs, contributions to the plan are not tax deductible on your tax return.

Business Basics

Additional Tips to Reducing Self -Employment Income

1099/ Self Employed

If self-employed or you receive a 1099, it is essential to keep good records of your income and expenses. Your expenses should be documented not just for auditing reasons, but to make sure you are taking every allowed expense that you can against your income to accurately reflect your net income for your business. Self-employment income is subject to 15.3% tax and when expenses are understated, your net income becomes overstated, and you are then paying tax on that overstated income. Some common expenses that can give big benefits but are often missed are mileage and home office deductions.

For mileage, track your business only miles as well as your total miles if you use your vehicle for both business and personal use. Mileage covers work travel as well as commuting for supplies specifically for business. If you have a home office space and any space dedicated to business supply storage, you will want to keep track of your dedicated square footage, whole home utilities shared between your business and personal use and any updates made to your spaces specifically for business use.

Self Employed persons may also be eligible to take Self Employed Health Insurance deductions for their own medical, dental and long-term care insurance premiums for themselves and their spouses, and children under 27.

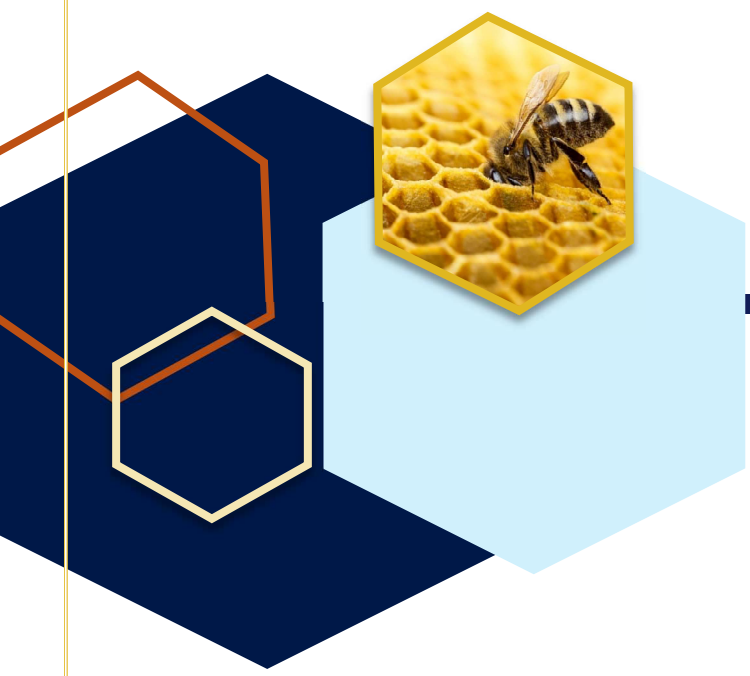
Have an idea of other Business Basics topics you would like us to cover?

Message us on our webpage or Facebook!

https://www.busybeeaccounting.com/

https://www.facebook.com/busybeeaccounting

Sources:

IRS

https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2022