Timing of Income and Deductions

Taxpayers should consider whether they can minimize their tax bills by shifting income or deductions between 2022 and 2023. Ideally, income should be received in the year with the lower marginal tax rate, and deductible expenses should be paid in the year with the higher marginal tax rate. If the marginal tax rate is the same in both years, deferring income from 2022 to 2023 will produce a one-year tax deferral, and accelerating deductions from 2023 to 2022 will lower the 2022 income tax liability.

Actions to consider that may result in a reduction or deferral of taxes include:

☐ Delaying closing capital gain transactions until after year end or structuring 2022 transactions as installment sales so that gain is deferred past 2022 (also see *Long Term Capital Gains*, below).

☐ Considering whether to trigger capital losses before the end of 2022 to offset 2022 capital gains.

☐ Delaying interest or dividend payments from closely held corporations to individual business-owner taxpayers.

☐ Deferring commission income by closing sales in early 2023 instead of late 2022.

☐ Accelerating deductions for expenses such as mortgage interest and charitable donations (including donations of appreciated property) into 2022 (subject to AGI limitations).

☐ Evaluating whether non-business bad debts are worthless by the end of 2022 and should be recognized as a short-term capital loss.

☐ Shifting investments to municipal bonds or investments that do not pay dividends to reduce taxable income in future years.

On the other hand, taxpayers that will be in a higher tax bracket in 2023 may want to consider potential ways to move taxable income from 2023 into 2022, such that the taxable income is taxed at a lower tax rate. Current year actions to consider that could reduce 2023 taxes include:

☐ Accelerating capital gains into 2022 or deferring capital losses until 2023.

☐ Electing out of the installment sale method for 2022 installment sales.

☐ Deferring deductions such as large charitable contributions to 2023.