



# GMS Flash Alert



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## United States - IRS Provides Tax Inflation Adjustments for Tax Year 2022

On November 10, 2021, the U.S. Internal Revenue Service (IRS) released the annual inflation adjustments to be used by individual taxpayers on their 2022 returns<sup>1</sup>. Over 60 tax provisions were updated, including tax rates and thresholds applicable to all taxpayers and certain provisions applicable to international assignees and expatriates.

Most tax rates and thresholds have seen higher increases for 2022 as compared to previous tax years, reflecting the increased rate of inflation in calendar year 2021. For example, whereas the standard deduction for married couples filing jointly increased by about \$300 in tax year 2021, the increase for tax year 2022 is significantly higher, at \$800. Additionally, some thresholds that were static for several years have been increased, such as the annual gift tax exclusion (increased to \$16,000 for 2022) and the flexible spending account limitation (increased to \$2,850 for 2022).

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### WHY THIS MATTERS

Employers seeking to accurately estimate the tax cost of an assignment from the United States to a foreign location may need to update their tax calculations to account for the increase in the foreign earned income exclusion and housing cost limitations. Additionally, employers may consider updating tax gross-up estimates to account for the updated tax rate brackets.

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### Tax Rates for Individual Taxpayers, Adjusted for Inflation

Rev. Proc. 2021-45 provides that for tax year 2022:

- The top income tax rate will be 37% for individual single and head of household taxpayers with incomes greater than \$539,900 and \$647,850 for married couples filing jointly.

- The other income tax rates for single and married filing joint taxpayers will be:
  - 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 will be 10% for single individuals with incomes of \$10,275 or less (\$20,550 for married couples filing jointly).

## Standard Deduction

The standard deduction amounts for 2022 will be increased, as follows:

- For married couples filing jointly – \$25,900 (an increase of \$800 from the prior year)
- For single taxpayers and married individuals filing separately – \$12,950 (an increase of \$400 from the prior year)
- For heads of households – \$19,400 (an increase of \$600 from the prior year).

The personal exemption for tax year 2022 remains at \$0 (the personal exemption was suspended for tax years 2018 through 2025 by the U.S. tax law enacted in 2017 (Pub. L. No. 115-97, commonly referred to as the “Tax Cuts and Jobs Act” (TCJA)).

## Estate and Gift Exclusions

- The basic exclusion amount for estates of decedents who die during 2022 is \$12,060,000 (up from \$11,700,000 for estates of decedents who died in 2021).
- The annual exclusion for individual gifts has been increased to \$16,000 for calendar year 2022 (up from \$15,000 in 2021).

## Medical and Health-Related Amounts

- For tax year 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 tax years beginning in 2021.
- For tax year 2022, for participants who have self-only coverage in a Medical Savings Account, to qualify as a “high-deductible health plan” 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, (up \$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 for a “high deductible health plan” must be 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.

## Other Items

- 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).
- For tax year 2022, the monthly limitation for the qualified transportation fringe benefit and the monthly limitation for qualified parking increases to \$280.
- The modified adjusted gross income amount used by joint filers to determine the reduction in the Lifetime Learning Credit provided in Internal Revenue Code § 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 in excess of \$80,000 (\$160,000 for joint returns).

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.

## Tax Provisions for International Assignees and Expatriates

- The maximum foreign earned income exclusion is increased to \$112,000 for tax year 2022, from \$108,700 for tax year 2021.
  - Accordingly, the foreign housing base amount increased to \$17,920 for tax year 2022 while the maximum housing expense increased to \$33,600 for tax year 2022.
- The average annual net income tax amount applicable to covered expatriates has been increased to \$178,000 for tax year 2022, up from \$172,000 for tax year 2021.
- The statutory exclusion amount for covered expatriates has been increased to \$767,000 for tax year 2022, up from \$744,000 for tax year 2021.

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## KPMG NOTE

There is uncertainty as to whether the U.S. Congress will take action on income tax rates in the current infrastructure legislation being considered. If rate changes are included in legislation that is agreed on and passed by both houses of Congress, then the IRS may be required to issue updates to the tax rate tables.

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## FOOTNOTE:

1 See: [Rev. Proc. 2021-45](#) .

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