

3 Steps to Make 2022 Your Best Tax Year Yet

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The new year is here, which means tax season is right around the corner.

In many ways, taxes became more complicated during the pandemic, with newly added exemptions and deductions, making it more important than ever to get ahead of the game. Now is the time for business owners and investors to create an effective tax strategy for 2022.

Here are three steps you can take to start the year off strong.

Step 1: Analyze Income

Review your 2021 income and your projections for 2022 and 2023. Are you anticipating a significant change? If so, part of your strategy should be to identify what this means for your tax bracket and begin planning accordingly.

You can reduce taxes by optimizing the way you receive money from your business or other entities as well. As you start the new year, make sure the salary or distributions you receive from your entities is on track. If you need to make adjustments, do so early so that you don't have to scramble at the end of the year.

Many accountants suggest pushing income to a future year as a way to postpone tax payments. This strategy can be effective, but it isn't always the best choice. There are a few different

factors to consider when deciding whether to do this. First, is your income so low you lose deductions? Many personal deductions don't carry over to the next year. Rather than taking deductions now, you may want to accelerate your income to make use of all your deductions.

Related: Time to Send Out 1099s. What to Know About Tax Season.

If you have gig income or if you plan to sell stocks at a gain this year, make sure you're planning for the associated income taxes. Typically, you should be paying estimated taxes on a quarterly basis. Wage earners have another option: You can withhold more on a year-end bonus or on your W-2 up to the full amount of pay, and it's considered spread evenly over all four quarters.

Step 2: Get Your Documentation in Order

January is a great time to get your recordkeeping in order. Invest some time now in establishing a solid system for tracking your finances and creating good bookkeeping habits. Some of the common items to track include:

- Mileage
- Travel expenses
- All other business expenses
- Medical expenses
- Childcare expenses
- Real estate hours (if you're a real estate professional)

Maintaining proper documentation of your income and expenses throughout the year is not only valuable in the case of a potential audit, it also is a great way to keep track of potential tax deductions.

Step 3: Become Someone the Tax Law Favors

While preparing to make investments, consider if they're the ones the government wants you to make. Tax laws are a series of incentives for business owners and investors, and it's easy to take advantage of the opportunities when you understand how the laws can work in your favor.

Related: 75 Items You May Be Able to Deduct from Your Taxes

The government favors producers – such as business owners, real estate investors and commodity providers – and has created huge tax incentives for these activities because they spur economic growth. While consumers typically owe 40% in taxes, producers can easily pay less than 20% in taxes based on the level of their activity. This reduction in taxes allows you to continue to reinvest and grow your wealth.

As you can see, reducing your taxes is a valuable process. Don't allow yourself to be stuck in a tax rut doing the same things you've always done. It's time to reevaluate your plan and set yourself up for your best tax year yet.

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