CPA
PARTNERS
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2021-2022
TAX PLANNING GUIDE

Updated for: The American Rescue Plan Act and The Consolidated Appropriations Act of 2021

Your Year-End

Tax Planning Guide

Recovery from the Covid-19 Pandemic is well under way. A substantial number of American businesses and individuals are reopening their doors and/or slowly returning to the work force. In many cases businesses were sustained by the Paycheck Protection Program (PPP) funding. Individuals and families have received greater unemployment benefits in addition to bonus amounts while not working.

There are two pieces of Federal legislation that will potentially affect tax strategies in 2021; The American Rescue Plan Act and The Consolidated Appropriations Act. Each act may have a specific impact on individual and business planning. Our goal is to help you navigate through the decision process in order to achieve the best possible tax outcome. Please be sure to contact us for more information.

The stock market has been holding fairly steady through 2021 and home prices in many states have soared subsequent to a geographic shift; in part due to individuals and families relocating because of Covid-19 concerns and/or restrictions. In addition to changes to Federal tax Legislation, prices for many goods and services have increased dramatically because of inflation. It is difficult to ascertain the long term effects of inflation on the economy as well as individual and business tax obligations. Questions also remain regarding what actions the Federal Reserve might take to dampen future inflationary pressures. We raise these factors because the impact of inflation is similar to a tax. The tax table on page 3 will help provide you with a guestimate of what you might owe for 2021.

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2021 Tax Climate: Introduction

The American Rescue Plan was signed into law by President Biden on March 11, 2021. This COVID-relief stimulus bill provided a third round of stimulus checks, extended unemployment benefits, funding for various public health and education programs, and expanded tax breaks for many families and small businesses. The tax changes are temporary, although there are a number of U.S. lawmakers pushing to make them more permanent.

The large majority of the Tax Cuts and Jobs Act (TCJA) changes went into effect for the 2018 tax year (for returns filed in the spring of 2019). The TCJA legislation cut the top corporate tax rate to 21%, lowered the top marginal rate for individual tax payers to 37%, eliminated or scaled back several deductions, reduced taxes on business income earned by pass-through businesses, doubled the estate tax exemption, and enhanced immediate expensing of capital investments. Apart from these changes introduced in 2018, here are some other highlights:

There continue to be seven tax brackets in 2021, (a change from five was made in 2018). For individuals the top tax rate of 37% applies to those with taxable income of $523,601 or more in 2021. Standard deduction for heads of household will increase $150 to $18,800 in 2021. Estates will have an exemption of $11,700,000 in 2021.

In 2021, the maximum amount workers can contribute to their 401(k) is the same as 2019. The amount is $19,500 ($26,000 for workers over age 50 in 2021). IRA amounts also reamain the same at $6,000 ($7,000 for those over age 50).

Starting in 2019, the Affordable Care Act (ACA) individual mandate is repealed. There will no longer be a penalty payment on individual taxpayers who do not have health insurance.

For tax year 2021, there are a number of (mostly temporary) tax changes thanks to the American Rescue Plan Act (ARPA) of 2021. These provisions involve the Child Tax Credit, the Child and Dependent Care Credit, unemployment benefits, and more.

Given the changing nature of tax law and the complexity of our tax rules, planning is essential. We can help keep you informed of legislative action that may affect your tax situation and develop tax-efficient strategies for you.

Individuals and Families

The tax table below will help provide you with a guestimate of what you might owe for 2021:

2021 INDIVIDUAL INCOME TAX RATES*

Regular Tax — Married, Filing Jointly or Surviving Spouse

If Taxable Income Is Between:	Your Tax Is:	Of Amount Over:
$ 0 – $ 19,900	.... 10%	$ 0
$ 19,901 – $ 81,050	$ 1,990 + 12%	$ 19,900
$ 81,051 – $ 172,750	$ 9,328 + 22%	$ 81,050
$ 172,751 – $ 329,850	$ 29,502 + 24%	$ 172,750
$ 329,851 – $ 418,850	$ 67,206 + 32%	$ 329,850
$ 418,851 – $ 628,300	$ 95,686 + 35%	$ 418,850
$ 628,301 and above	$168,993.50 + 37%	$ 628,300

Married, Filing Separately

If Taxable Income Is Between:	Your Tax Is:	Of Amount Over:
$ 0 – $ 9,950	.... 10%	$ 0
$ 9,951 – $ 40,525	$ 995 + 12%	$ 9,950
$ 40,526 – $ 86,375	$ 4,661 + 22%	$ 40,525
$ 86,376 – $ 164,925	$ 14,751 + 24%	$ 86,375
$ 164,926 – $ 209,425	$ 33,603 + 32%	$ 164,925
$ 209,426 – $ 314,150	$ 47,843 + 35%	$ 209,425
$ 314,151 and above	$84,496.75 + 37%	$ 314,150

Single

If Taxable Income Is Between:	Your Tax Is:	Of Amount Over:
$ 0 – $ 9,950	.... 10%	$ 0
$ 9,951 – $ 40,525	$ 995 + 12%	$ 9,950
$ 40,526 – $ 86,375	$ 4,664 + 22%	$ 40,525
$ 86,376 – $ 164,925	$ 14,751 + 24%	$ 86,375
$ 164,926 – $ 209,425	$ 33,603 + 32%	$ 164,925
$ 209,426 – $ 523,600	$ 47,843 + 35%	$ 209,425
$ 523,601 and above	$157,804.25 + 37%	$ 523,600

Head of Household

If Taxable Income Is Between:	Your Tax Is:	Of Amount Over:
$ 0 – $ 14,200	.... 10%	$ 0
$ 14,201 – $ 54,200	$ 1,420 + 12%	$ 14,200
$ 54,201 – $ 86,350	$ 6,220 + 22%	$ 54,200
$ 86,351 – $ 164,900	$ 13,293 + 24%	$ 86,350
$ 164,901 – $ 209,400	$ 32,145 + 32%	$ 164,900
$ 209,401 – $ 523,600	$ 46,385 + 35%	$ 209,400
$ 523,601 and above	$ 156,355 + 37%	$ 523,600

2021 Qualified Dividend Income 15%* (0% for lower tax brackets)

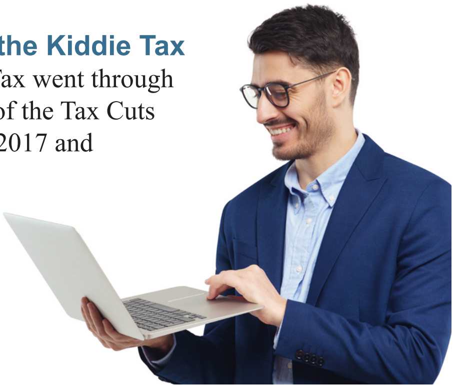
*Individuals in the top tax bracket will pay 23.8% (20% plus a 3.8% Medicare surtax).

Note: Tax amounts have been rounded up to nearest dollar.

The trick to effective tax planning is taking advantage of the tax breaks that fit your particular situation. In order to maximize your savings and minimize your taxes, start by planning for both the short and long term. Here are some tips for making the most of your opportunities:

Changes to Exemptions — In 2018, the Tax Cuts and Jobs Act eliminated the deduction for personal and dependent exemptions. The tax law increased the standard deduction amounts. In 2021, the deduction amounts are $25,100 for married filing jointly, $12,550 for single filers, and $18,800 for heads of households, indexed for inflation. These changes expire at the end of 2025 unless Congress takes further action.

Plan Around the Kiddie Tax — The Kiddie Tax went through changes as part of the Tax Cuts and Jobs Act of 2017 and has recently changed again as part of the SECURE Act passed in December 2019. Under the SECURE Act, some of the provisions were shifted back to pre-2017 law. Currently, unearned income over $2,200 for children under age 18 (age 19 if the child does not provide more than one half his/her own support or age 24 for full-time students) is taxed at the parents' marginal tax rate, not the rates that apply to trusts and estates as it did in 2018 unless you file an amended return for that year. For 2021 filings, taxpayers will choose which rate approach to use depending on their situation. The rates in 2021 are: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.



In 2021, children owe no taxes on the first $1,100 of unearned income and are taxed at their own rate on the next $1,100. Original law applied the kiddie tax to children under age 14. This permitted children 14 and older to file their own returns, allowing their taxable investment income, such as dividends and interest, to be taxed at rates most likely lower than their parents' top rates.

Even with the increase in age, there are steps you can take to plan around the kiddie tax. Consider shifting your children's investments to tax-free securities, low-dividend growth stocks, or low-turnover mutual funds. A trust may also be an option. Be sure to consult your legal professional for specific guidance.

Medical Expenses — In 2021, all individuals may deduct qualified medical expenses that exceed 7.5% of AGI for the year.

Health Insurance — From 2014-2018, all uninsured U.S. citizens and legal residents were required to obtain health care coverage or pay a tax penalty. However, starting in 2019, with the passing of the Tax Cuts and Jobs Act in December 2017, the individual mandate that required all Americans under 65 to have health insurance or pay an annual penalty, is repealed. Americans without health coverage in 2019 and beyond will not be subject to a Federal tax penalty.

To help raise revenue, a Hospital Insurance tax rate or Additional Medicare Tax of 0.9% will be assessed on earned income in excess of $200,000 for individuals and $250,000 for married couples filing jointly, as well as a 3.8% Unearned Income Medicare Contributions Surtax on the lesser of net investment income or the excess of modified adjusted gross income (MAGI) over the same threshold amounts. Some trusts and estates will also be liable to pay this 3.8% tax. For tax years beginning after December 31, 2021, a 40% nondeductible excise tax will be imposed on high-cost, or "Cadillac," health insurance plans.

TAX CREDITS & DEDUCTIONS

Take advantage of every tax credit and deduction available to you. Credits, in particular, are valuable because they provide a dollar-for-dollar reduction of your tax bill.

Child Tax Credit - ARP Act Update — The American Rescue Plan (ARP) Act of 2021 temporarily expands the Child Tax Credit by allowing families to claim the credit regardless of their income level. It also increases the maximum amount of the credit to $3,600 for each child under age 6 and $3,000 for each child between ages 6 and 17. Additionally, the tax credit has been made fully refundable for low-income families. Eligible households will begin to receive advance monthly payments of the Child Tax Credit starting in July 2021.

ITEMIZED DEDUCTIONS

Because tax rates, deductions, and phaseouts are constantly changing, timing of income and expenses is critical. For most taxpayers, the general rule is *defer income* and *accelerate deductions.* You are allowed to take the standard deduction or to itemize your deductions on your tax return—whichever offers you the most benefit. However, the Tax Cuts and Jobs Act of 2017 eliminated or restricted many itemized deductions starting in 2018, and raised the standard deduction. This means that fewer taxpayers are likely to itemize.

The standard deductions for 2021 are as follows: $25,100 for married taxpayers filing jointly; $12,550 for single filers; $18,800 for head of household filers; and $12,550 for married taxpayers filing separately. There is an additional deduction for visually impaired or elderly taxpayers of $1,700 (if unmarried and not a surviving spouse) or $1,350 (if married).

If you still itemize your deductions, maintain detailed records. Consult with us throughout the year to monitor your income and plan your deductions.

Bunch Deductions — Try "bunching" your expenses to ensure that you exceed the deduction "floor." Bunching two years' worth of expenses into one year enables you to increase your total deductions over the two-year period and avoid losing the tax benefit from your deductions.

Pay Estimated State Tax Early — You may get a larger Federal deduction in 2021 if you make your state 4th quarter estimated tax payment by December 31 (instead of by the required January 18, 2022). But, be wary of the AMT.

Donate Appreciated Property — Donating appreciated capital gain property to charity has many tax advantages. For most appreciated property, the amount of your deduction is the value of the property, rather than its cost, and you are never taxed on the amount of appreciation. In the case of many property donations, an annual deduction limit of 30% of AGI applies. Inventory, items donated for a charity auction, and certain other types of property are subject to different rules.

It is important to note that, for all charitable donations, you must obtain a bank record or *written* acknowledgment from the recipient charity that specifies the amount and date of contribution, as well as the name of the charity. For property, the acknowledgment must describe the gift and indicate an estimated valuation. Be aware that special rules may apply if you donate an automobile to charity. You'll need an appraisal if you claim a deduction of more than $500 for items not in good condition or $5,000 for items in good or better condition.

Casualty Losses — The Tax Cuts and Jobs Act of 2017 applied new limits to an individual's ability to deduct personal casualty and theft losses. For tax years 2018 through 2025, taxpayers cannot deduct personal casualty and theft losses unless the casualty losses are incurred in a Federally declared disaster. If a taxpayer suffers a loss in a declared disaster, they will be able to claim the loss as an itemized deduction, subject to the $100 floor. The balance is deductible to the extent it exceeds 10% of AGI. (If you have more than one loss event for the year, the balances above $100 for each are totaled and the excess above 10% of AGI is deductible.) Repair costs due to corrosive drywall are eligible as a casualty loss in the year of payment, but slow damage, as from rust or insects, is not. Gain on insurance proceeds for personal property lost in a declared disaster is not taxed. You can take a 2021 declared-disaster loss on your 2021 or (amended) 2020 return; choose the year of lower AGI.

Insurance reimbursements for living expenses are taxable to the extent they exceed actual expenses in the year the owner receives the funds or moves back into the house, whichever is later. Insurance payments are also taxed for a destroyed house that are not spent to replace the house within two years (four years in disaster areas); and for items listed in separate schedules of the policy and not reinvested in the house or similar items.

Compensation — Severance pay is fully taxable and severance paid to employees laid off as part of a reduction in workforce is subject to payroll taxes. Outplacement services are no longer a tax-free benefit under the Tax Cuts and Jobs Act of 2017 because miscellaneous deductions which exceed 2% of your AGI are eliminated from 2018-2025, and this includes job search expenses. State unemployment benefits continue to be taxable. You can convert compensation to a tax-advantaged form, such as no-extra-cost-to-the-employer services, working condition fringe benefits, employee discounts, or de minimus fringe benefits. Some types of noncash compensation are taxable—e.g., employer provided automobile for personal use or employer aid for education not directly job-related or job-required. Also, stock options: the difference between the stock's fair market value and the option price is "income" when the option is exercised, but a special rule delays the tax on incentive stock options (ISOs) until the stock is sold or exchanged.

Investment Interest Expenses — If you have capital gains or dividend income, you may want to calculate the breakeven point to optimize both the lower capital gain and dividend tax rates. Under the tax law changes of 2017, you can no longer deduct ordinary and necessary investment expenses as miscellaneous itemized deductions subject to the 2% floor. However, if you borrowed money to purchase taxable investments, you may still be able to use the interest expense from the loans to reduce your investment income and up to $3,000 of capital losses can be used to offset ordinary income

Understand the Tax Aspects of Divorce —

- Under new tax law, many taxpayers lose the benefit of deducting legal fees for divorce as itemized deductions due to new limitations. Taxpayers who claim the standard deduction in 2021 instead of itemizing will not be able to deduct legal fees.

- The Tax Cuts and Jobs Act of 2017 eliminated deductions for alimony payments required by divorce agreements executed after December 31, 2018. Recipients of affected alimony payments will no longer have to include them in taxable income.

  The basis of property transferred in a divorce proceeding carries over from one spouse to the other. Therefore, it is important to consider not only the value of property received, but also its tax basis. The recipient of appreciated property may owe tax on its inherent appreciation when it is later sold. This future liability can be recognized, quantified, and properly reflected in the divorce settlement.

Claim All Available Home-Related Deductions —

- Under the Tax Cuts and Jobs Act of 2017, you can no longer deduct ordinary and necessary investment expenses as miscellaneous itemized deductions, subject to the 2% floor. Under prior law, brokers' and mutual fund commissions were generally deducted by adding them to the basis to reduce capital gain upon sale.
- You may be able to deduct interest on a loan for a second home, provided your primary and secondary mortgages do not total more than $750,000 (or $375,000 if married filing separately). The Tax Cuts and Jobs Act of 2017 suspends from 2018 to 2025 the deduction for interest paid on home equity loans and lines of credit, unless they are used to buy, build or substantially improve the taxpayer's home that secures the loan.
- If you rent the home for more than 14 days per year and it qualifies as a personal residence, you can also deduct the appropriate portion of upkeep, insurance, utilities, and similar costs to offset rental income. The property may be depreciated, which can help reduce your rental income without expending cash. As long as you use the place yourself for less than 14 days or 10% of the rental days, it is considered rental property, and you can claim a rental loss (subject to certain limitations).

BEWARE OF THE AMT

The alternative minimum tax (AMT) attempts to ensure that anyone who benefits from these tax advantages pays at least a minimum amount of tax. The AMT is a separate tax formula that eliminates many deductions and credits, thus increasing tax liability for an individual who would otherwise pay less. If your taxable income for regular tax purposes, plus any adjustments and preference items, is more than the AMT exemption amount, you must calculate tax using both the AMT and regular tax formulas and pay the higher of the two amounts.

The Tax Cuts and Jobs Act of 2017 increased the AMT exemption amounts and raised the phaseout thresholds. It also permanently indexed the exemptions for inflation. Today, the AMT will primarily effect high-income households, as it was originally intended.

Under the AMT, individuals are taxed at rates of 26% and 28% on the amount of taxable income above the exemption amounts. In 2021, the exemption amounts are $73,600 for single filers, $114,600 for married couples filing jointly, and $57,300 for married couples filing separately. Consult with us to determine if the AMT will affect you.

Tax Saving Strategies

FOR FAMILIES AND INDIVIDUALS

- ✔ Lower your taxable income by shifting income to other family members. However, watch out for the kiddie tax.
- ✔ Calculate the value of the tax benefits to see who should claim education deductions and/or credits—you or your child.
- ✔ Consider your plans for the near future. How will marriage, divorce, a new child, retirement, or other events affect your year-end tax planning?
- ✔ Take maximum advantage of your employer's Section 125 flexible spending account, 401(k) plan, health savings account (HSA), and health reimbursement arrangement (HRA).
- ✔ For tax purposes, a deductible purchase is considered "paid" when charged. If you need the deductions this year but do not have the cash, consider charging contributions, medical expenses, business expenses, and some state tax payments. Just remember to pay them off quickly to avoid increasing debt.

Education Strategies

There are several strategies for those saving for a child's education, such as 529 plans, Coverdell Education Savings Accounts (ESAs), and education tax credits. Navigating the different options and the temporary nature of some opportunities, however, can be challenging. Let's take a look at the rules governing tax breaks for education.

Coverdell Education Savings Accounts (ESAs) — You can use the Coverdell Education Savings Account (ESA) to help pay for your child's elementary and secondary school expenses, as well as college expenses. The annual contribution limit is $2,000 to an ESA. Income phaseouts for 2021 are $83,200-$98,200 for single and head of household filers and $124,800–$154,800 for married filing jointly. Some important notes: income limits apply when bonds are cashed; bonds must be in the parent's name; the child must be the beneficiary, not co-owner; and the purchaser must be age 24 or older. You have until the April tax filing deadline in 2022 to make contributions for 2021.

Education Credits — If you are currently paying higher education expenses, two Federal tax credits may help lessen your tax bill: the American Opportunity Tax Credit and the Lifetime Learning Credit. For the American Opportunity Tax Credit, the maximum credit amount is $2,500 for 2021. It is now available for all four years of college, and it can be used to cover the cost of course materials. Income phaseout levels for the credit begin at $160,001 of modified AGI for joint filers and $80,001 of modified AGI for single filers in 2021. In addition, 40% of the credit is refundable, which could enable lower-income taxpayers to get money back from the IRS. The Lifetime Learning Credit, which applies to undergraduate study, as well as graduate and professional education, could be worth up to $2,000. The Consolidated Appropriations Act (CAA) of 2021 changed the Lifetime Learning Credit by aligning its income phase out rule with the American Opportunity Tax Credit. For 2021, eligibility begins phasing out for joint filers with modified AGI above $160,000 ($80,000 for single filers). If a student qualifies for both credits in the same year, you may claim either credit, but not both.

Other Education Related Tax Benefits —

- Student Loan Interest Deduction–up to $2,500. This is an "above-the-line" deduction. Phaseout begins: Single $70,000; Married Filing Jointly $140,000.
- Employer Tuition Assistance–up to $5,250 excluded from income.

529 Plans — These qualified tuition programs, offered as prepaid tuition plans or college savings plans, are valuable tools to help you finance your child's education. In 2021, up to $10,000 of 529 funds per year can be used for qualified K-12 tuition expenses. Taxpayers can also rollover amounts from 529 plans into ABLE accounts. Under the Setting Every Community Up for Retirement Enhancement (SECURE) Act, up to $10,000 can be used to pay down the account beneficiary's student loans and another $10,000 can be used to repay student loans held by their sibling. The law also allows 529 funds to be used for apprenticeships that are registered with the Federal Labor Department. Prepaid tuition programs allow you to lock in today's tuition rates at participating private and public colleges and universities. College savings plans, on the other hand, offer a range of investment options, typically a variety of mutual funds, which can be used to pay for tuition and other qualified education expenses at many colleges and universities nationwide.

2021 Saving for Higher Education

	Coverdell Education Savings Accounts	Prepaid Tuition Plans	College Savings Plans
What is the annual contribution limit?	$2,000	Varies by plan	Varies by plan
Are there income limits?	Yes	No	No
Are K-12 expenses qualified?	Yes	Yes	Yes
Are qualified distributions tax free?	Yes	Yes	Yes
Eligible for use with tax credits?	Yes	Yes	Yes
Are there age restrictions?	Yes	No	No

While state tax benefits for 529 plans vary by state, all 529 plans offer Federal tax benefits: Earnings grow on a tax-deferred basis, and withdrawals to pay for qualified education expenses are tax free.

Contributions to a 529 plan on behalf of a beneficiary are considered a gift for gift tax purposes, and in 2021, up to $15,000 ($30,000 for joint filers) may be given tax free. Furthermore, a special gift tax rule allows individuals to make a tax-free, lump-sum contribution to a 529 plan of up to $75,000 ($150,000 for joint filers) in 2021; however, you are unable to make tax-free gifts on behalf of the same beneficiary for the next five years.

Financial Aid — Most colleges use Federal guidelines to determine the need-based aid for which your child may be eligible. (Criteria for colleges that use their own formulas may vary from what is discussed here.) Several factors determine the amount of the aid: the "cost of attendance" for the college in question; the money provided from outside sources (such as scholarships or tuition paid directly by a relative); and the "expected family contribution" (EFC). The information you provide each year on the Free Application for Federal Student Aid (FAFSA) is used to calculate your EFC. The college then uses that figure to calculate the amount of Federal student aid you are eligible to receive through loans, grants, and/or work-study programs. If you have a child going to college in 2021-2022, the aid assessment will be based on your 2020 return.

Investment Planning

Proper planning can help you time your transactions and make tax-efficient investing decisions. In December 2017, the Tax Cuts and Jobs Act changed the brackets for long-term capital gains and dividends. From 2018-2025, the rates have their own brackets, which are no longer tied to the ordinary income brackets. Below are the 2021 brackets for long-term capital gains and dividends:

2021 Long-Term Capital Gains and Income Brackets

Tax Bracket	Single	Joint	Head of Household
0%	$0–$40,000	$0–$80,000	$0–$54,100
15%	$40,001–$445,850	$80,001–$501,600	$54,101–$473,750
20%	over $445,850	over $501,600	over $473,750

CAPITAL GAINS & LOSSES

Gains on assets held longer than a year are treated as long-term capital gains, subject to a 20% maximum rate for individuals.

Under the Patient Protection and Affordable Care Act (PPACA), higher-income taxpayers will pay a 3.8% Medicare surcharge on net investment income if income threshold amounts exceed $200,000 for single filers or $250,000 for joint filers. Thus, the top tax rate for these higher-income taxpayers is 23.8% for long-term gains and 40.8% for short-term capital gains.

It is important to keep in mind that capital gains attributable to depreciation from real estate held longer than 12 months are taxed at 25%, and the gain on collectibles and certain small business stock is taxed at 28%. In addition, short-term gains on assets held one year or less are subject to tax at your regular income tax rate.

If you have cashed in some big gains during the year, review your portfolio for unrealized losses. You may want to sell off stock unlikely to rebound and use the losses to offset your gains. If you end up with more losses than gains, you can use $3,000 against ordinary income (i.e., compensation, dividends, and interest) and carry over remaining losses to next year.

Always review gains and losses before the end of the year so you can offset gains and make sure you have paid enough in estimated taxes.

Gain on Home Sales — Married couples filing jointly can exclude up to $500,000 ($250,000 for single filers) of gain when they sell their home. The home must have been the principal residence for at least two of the last five years.

Homeowners can receive a portion of the exclusion based on how long they lived in the home, as long as the sale is due to a change in place of employment or health, or unforeseen circumstances. The exclusion can be used once every two years and at any age.

If you operate a business out of your home, you may qualify for a home office deduction. However, because of the Tax Cuts and Jobs Act of 2017, even fewer taxpayers than in years past will be eligible for this deduction. Home office expenses for employees of companies are considered a miscellaneous itemized deduction. Under the law from 2018-2025, company employees who work from home will not be able to deduct any home office expenses. If you are self-employed, however, you can deduct eligible home office expenses against your self-employment income.

Timing Is Everything — When it comes to investing, timing is everything. So, unless you risk a significant loss by holding a volatile stock, consider the tax benefits of holding it for at least a year and one day. Even if the stock price drops, you may cut your taxes on the profit nearly in half if you wait.

- Unless you are holding a volatile stock and risk substantial loss, consider holding your investments for at least a year and one day. Even if a stock price drops slightly, you may cut your taxes on the profit by more than half if you wait.

- If you cashed in significant gains during the year, review your portfolio for unrealized losses. Sell off any stock not likely to rebound and use the losses to offset your gains. If you end up with more losses than gains, you may use $3,000 against ordinary income and carry remaining losses over to next year.

- Reviewing gains and losses before the end of the year helps you determine if you have paid enough estimated taxes to cover any gains. A year-end review can also help you plan for the AMT, as large capital gains can trigger AMT liability.

- When selling off shares of stock purchased at different prices and at different times, inform your broker beforehand that you wish to sell the shares with the highest basis. This can minimize taxable gain or maximize deductible loss.

- Investments that increase in value while paying no income to you are not taxed until they are sold. By timing that sale carefully, you can improve your tax and financial position. For example, you can wait to sell investments until a year in which your tax rate is low. Or, you can give the investments to your children who are older than age 19 (or age 24 for full-time students); they may sell them and be taxed at their lower rate. (Be sure to consider potential gift tax implications.)

- Mutual funds usually pay capital gain distributions in November or December. If you buy into a fund before the distribution date, you can be taxed on the gains distributed even though they have already been reflected in your purchase price. Consider waiting until January to buy into the fund.

- Although you have no control over the timing of sales in a mutual fund, you can look for mutual funds that employ certain tax-saving strategies. Some funds trade actively, while others employ a buy-and-hold strategy.

- If you may be subject to the AMT this year, avoid investing in tax-exempt bonds that generate interest income subject to the AMT.

2021 Tax Saving Strategies

FOR INVESTMENT PLANNING

- The Tax Cuts and Jobs Act of 2017 retains section 1031 for real estate exchanges, but may no longer be used to defer taxes for transactions involving personal property. Consider a like-kind exchange to defer gain on the sale of business or investment property. However, do not exchange loss property. Instead, sell the old property outright, deduct the loss, and then purchase the replacement property. Also, before doing a like-kind exchange, analyze whether the benefits of deferral are outweighed by the currently low capital gains rate.

- Plan around the expanded “kiddie tax.” Children’s unearned income over $2,200 may be taxed at the parents’ generally higher marginal rate until the children reach age 18 (age 19 if the child does not provide more than one half his/her own support or age 24 for full-time students). Under the original law, the kiddie tax only applied to children under age 14.

- To avoid being taxed twice, count reinvested dividends as part of your tax basis when you sell stock.

- AMT planning is critical if you have incentive stock options (ISOs). Exercising an ISO creates an AMT adjustment, often with no corresponding cash with which to pay any resulting AMT. Selling stock to generate cash may not solve the problem if the stock has dropped in value or is sold prior to having met ISO time requirements.

- Consider your investment mix in light of the tax rates for qualifying dividends.

Business Tax Planning

As your business grows or your personal situation changes, the business structure in which you operate may need to change, as well. Keep in mind that this

Choosing a Business Structure — How Do They Co		
	C Corporations	S Corporations
Liability of owners	Limited, even if shareholders participate in management	Limited, even if shareholders participate in management
Number of owners	No maximum	100 maximum
Profit/loss and distributions	Special allocations permitted for separate classes of stock	No special allocations permitted
Transferability of interests	No restriction	No restriction, bu must be to eligib shareholder or "S status terminates
Federal income taxes	Taxed at corporate level, a flat 21%, plus tax on dividends to shareholders	No corporate level tax (unless previously a C corporation)**
Continuity of life	Unlimited	Unlimited
Avoidance of double taxation	No	Usually
Tax forms to file	Form 1120	Form 1120S

** LLCs are treated as a partnership for tax purposes. ** Single-member LLCs that do not ele*

***Owners of business entities, which are not taxed as "C" corp (QBI) deduction. The deduction for QBI may be limited and/ of the individual, as well as such factors as the type of busin capital assets owned by the business. For income above $32 would be an effective marginal rate of not more than 29.6%

decision can impact your personal liability, as well as the amount of tax you and your company will pay. Let’s compare the different business structures.

mpare?

	LLCs* and LLPs	General Partnerships	Sole Proprietorships
	Limited, even if members/partners participate in management	Unlimited for general partners; limited for limited partners who do not participate in management	Unlimited
	No maximum, usually a minimum of two**	No maximum, requires a minimum of two	One
	Special allocations permitted	Special allocations permitted	N/A
ut le S” s	Restricted, typically requires approval of majority of members	Generally restricted unless authorized by agreement	N/A
**	None at LLC or LLP level***	None at partnership level***	Taxed on individual return ***
	Limited	Limited	N/A
	Yes	Yes	Yes
	Form 1065	Form 1065	Form 1040 Schedule C

ct to be corporations will be classified as a “disregarded entity” for tax purposes.

porations, are eligible for a 20% Qualified Business Income
for subject to phase-out, depending on the taxable income
ess, amount of wages paid by the business, and amount of
26,600, the legislation phases in limits on what otherwise
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THE CONSOLIDATED APPROPRIATIONS ACT 2021

The Consolidated Appropriations Act is a $2.3 trillion spending bill that combined $900 billion in stimulus relief for the COVID-19 pandemic in the United States with a $1.4 trillion omnibus spending bill for the 2021 federal fiscal year (combining 12 separate annual appropriations bills) which prevented a government shutdown.

The bill is one of the largest spending measures ever enacted, surpassing the $2.2 trillion CARES Act, enacted in March 2020 which provided enormous relief to thousands of businesses nationwide. The legislation is the first bill to address the pandemic since April 2020. According to the Senate Historical Office, at 5,593 pages, the legislation is the longest bill ever passed by Congress.

The bill was passed by both houses of Congress on December 21, 2020, with large bipartisan majorities in support. The bill was the product of weeks of intense negotiations and compromise between Democrats and Republicans during the lame-duck session. President Donald Trump signed it into law on December 27, 2020.

The Paycheck Protection Program

Second draw PPP loans generally have the same terms as the first draw PPP loans. Under certain circumstances, a business that received a PPP loan was allowed to receive additional loan proceeds by way of a second draw.

The Economic Injury Disaster Loan Program

The CARES Act also included a provision for the SBA's Economic Injury Disaster Loans (EIDLs), which are designed to assist small businesses that experienced financial difficulties and temporary loss of revenue due to the Coronavirus crisis. The CARES Act removed some of the red tape that's usually involved with obtaining an EIDL and make it easier for businesses to get assistance.

EMPLOYER-PROVIDED BENEFITS

It is important for businesses to offer generous benefit packages to attract and retain the best employees. But, that does not mean a company has to suffer. In fact, businesses can generally avoid payroll taxes on the portion of compensation shifted from salary to benefits. Employees who receive certain benefits in lieu of salary also win because their taxable income is lowered.

Attractive benefits include retirement plans, group term life insurance (up to $50,000), health insurance, parking, employee discounts, and noncash gifts. Consider the following options:

- Set up a flexible spending arrangement (FSA) to help employees pay for medical expenses that insurance does not reimburse, such as eye surgery, prescription drugs, orthodontia, chiropractic, and co-pays. FSAs let employees pay some health-care expenses with pre-tax compensation dollars. Contributions to medical FSAs are now capped at $2,750 annually in 2021.

- Provide a health reimbursement arrangement (HRA) for employees. Medical expenses reimbursed through an HRA are not taxed to the employee and are deductible by the employer. Unused funds carry forward to later years.

- Establish a 401(k) or other qualified retirement plan, such as a Savings Incentive Match Plan for Employees (SIMPLE), Simplified Employee Pension (SEP), or profit-sharing plan. In general, employee contributions are made with pre-tax dollars, and earnings grow on a tax-deferred basis. Matching contributions, when possible, may encourage participation and enhance your employee recruitment and retention efforts. When choosing a plan, or combination of plans, consider both your business needs and your personal financial goals. In December 2019, Congress passed The Setting Every Community Up for Retirement Enhancement Act (SECURE Act) which incentivizes employers to offer defined contribution (DC) plans, promotes lifetime income options, and improves retirement plan accessibility, design and administration. Included in the legislation is the ability for companies to combine resources to provide Tax Qualified Retirement Plans (QPs) such as "open" multiple employer plans (MEPs), also known as "pooled employer plans" (PEPs). The legislation includes policy changes that will impact IRAs, DC plans, DB plans, and 529 plans. While some of the provisions of the SECURE Act will not go into effect until later years, most changes are effective for taxable years beginning Janurary 1, 2020.

Which is Best for Your Business?
SIMPLE vs. STANDARD 401(k)

2021	SIMPLE IRA	SIMPLE 401(k)	Standard 401(k)
Maximum Business Size	100 or fewer employees	100 or fewer employees	No limit
Individual Contribution Limit	$13,500	$13,500	$19,500
Discrimination Testing	No	Limited	Yes
Mandatory Employer Match	Yes, 1%–3% of salary	Yes, 3% of salary	No
Vesting	Immediate	Immediate	Up to 7 years
Administration	Least	Medium	Most

HEALTH INSURANCE

Small businesses with fewer than 25 full-time equivalent employees (FTE) whose average employee salary is about $50,000 per year or less that pay at least 50% of the health care premiums for their employees qualify for a tax credit of up to 50% of their premiums (up to 35% for nonprofits), if insurance is purchased through an exchange Small Business Health Options Program (SHOP). In 2021, a business with 50 or more full-time employees (defined as working 30 or more hours per week) will be required to provide health insurance to at least 95% of their FTE and dependents to age 26 or pay a penalty. The business must provide health insurance plans that meet "minimum value" standards, or ones that cover at least 60% of the total cost of medical services. If the employer's plan fails to meet the minimum value requirement or costs more than 9.83% of an employee's annual income, then the company will have to pay penalties. Companies that don't offer affordable coverage will owe $3,860 for every FTE employee who gains coverage through the marketplace. If an employer fails to offer any type of health insurance, then they will have to pay $2,700 per FTE employee in 2021.

The employer will only pay the penalty if an FTE employee enrolls in a subsidized health insurance plan on the marketplace. In 2021, companies are allowed to deduct the first 30 FTE employees from their calculations.

HEALTH SAVINGS ACCOUNTS

Health savings accounts (HSAs) offer qualified individuals covered by high-deductible health plans (HDHPs) tax-favored opportunities to save for medical expenses. Employers of any size may establish HSAs, and pre-tax contributions can be made through a cafeteria plan. An employee's contributions may be tax deductible within certain limits. Distributions from an HSA for qualified medical expenses are tax free, and unused funds may be carried forward from year to year. Nonqualified distributions may be subject to income tax and a 10% penalty. If a participant changes jobs or health insurance coverage, the HSA is portable. For 2021, the maximum contribution is $3,600 for individual coverage and $7,200 for family coverage. Individuals age 55 and older can contribute an additional $1,000 for 2021 on a pre-tax basis. Amounts are doubled if the account beneficiary is married and both spouses are over age 55.

BUSINESS DEDUCTIONS

To keep your business' tax bill as low as possible, take advantage of every deduction available. You may be able to save by timing purchases to take advantage of temporary opportunities.

Business expenses must be "ordinary" (common) and "necessary" (helpful and appropriate) in your type of business to qualify as deductions. You can increase your deductions by paying attention to what you do near year-end. For example, buy non-inventoriable supplies before year-end and accelerate repairs into this year; reduce or defer year-end income; delay shipping until next year; make sales on consignment or approval. For cash basis businesses, defer billing for services until the next month or quarter and advance 2021 payments you expect to make in 2022 for expenses such as maintenance, office supplies, and advertising.

Section 199A Deduction — The Section 199 deduction is eliminated for tax years after 2018, for non-corporate taxpayers and for tax years after 2019 for C corporation taxpayers. Under the Tax Cuts and Jobs Act of 2017, a new Section 199A was enacted into law allowing a non-corporate taxpayer a deduction for QBI for taxable years after December 31, 2017, for 10 years. Under the new law, owners of business entities, which are not taxed as “C” corporations, are eligible for a 20% Qualified Business Income (QBI) deduction. The deduction for QBI may be limited and/or subject to phase-out, depending on the taxable income of the individual as well as such facts as the type of business, amount of wages paid by the business, and amount of capital assets owned by the business.

New Equipment Costs — Business owners can use the Section 179 expense deduction for new business equipment, furniture purchases, vehicles, and off-the-shelf computer software. Because Section 179 expensing allows you to take an upfront deduction on purchases, it can be a convenient alternative to depreciating the cost of equipment over time.

Bonus Depreciation — Under the Tax Cuts and Jobs Act of 2017, a 100% first-year deduction is allowed for qualified property acquired and placed into service after September 27, 2017 and before 2023. The 100% allowance is phased down starting after 2023: 80% in 2023, 60% in 2024, 40% in 2025, and 20% in 2026, with none allowed after 2026

Lower Your Taxable Income — Buy business supplies at the end of a profitable year and accelerate other expenditures, like repairs and maintenance.

Avoid Mid-Quarter Convention — Maximize your depreciation deduction by planning qualifying purchases before the end of the year. However, be sure to avoid having depreciation deductions reduced as a result of the “mid-quarter convention,” which occurs when more than 40% of the total cost of all personal property placed in service during the year goes in service in the last three months of that tax year. Purchases fully deducted as Section 179 expenses are removed from the mid-quarter convention computation.

36-Month Assets (Straight-Line)
Most software
3-Year Assets (200% DB)
Dies, molds, small tools, certain horses, tractor units
5-Year Assets (200% DB)
Autos, computers, office machinery, taxis, buses, trucks, cattle, private aircraft, appliances, carpeting, furniture, farm equipment
7-Year Assets (200% DB)
Most manufacturing equipment, office furniture, printing equipment, oil and gas production equipment
15-Year Assets (150% DB)
Land improvements other than buildings, retail fuel outlets
27.5-Year Assets (Straight-Line)
Rental houses, apartments, low-income housing
39-Year Assets (Straight-Line)
Nonresidential buildings

Maximize Depreciation — Consider a cost segregation study to maximize your depreciation deduction. You can accelerate depreciation by properly identifying and pricing nonstructural items and land improvements separately from your building. These items have much shorter depreciable lives than the assigned 39-year life for nonresidential real property.

The Tax Cuts and Jobs Act of 2017 expanded the ability to expense qualifying property immediately. Qualifying assets placed in service between September 27, 2017 and December 31, 2022, are eligible for immediate expensing. After 2022, the deduction phases out by 20% each year.

Deductions for Meals, Entertainment, and Transportation Costs

The Tax Cuts and Jobs Act of 2017 changed the way businesses handle meals, entertainment and transportation expenses from a tax perspective.

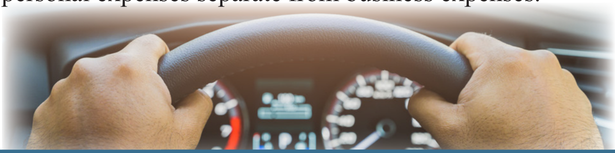
Meals — The Consolidated Appropriations Act, 2021, in order to help the struggling restaurant industry, increased the business-meal deduction for the cost of food and beverages provided by a "restaurant" from 50 percent to 100 percent in 2021 and 2022, if certain conditions are met. Documentation of the business purpose of the meal is necessary for deductibility. The recently changed tax law extends the 50% deduction limit to employer-operated eating facilities through 2025. After 2025, employer-operated eating facilities become non-deductible.

Entertainment — The 2017 law eliminates deductions for entertainment even if it is directly related to the conduct of business.

Transportation — The tax law changes of 2017 also eliminated deductions for qualified transportation fringe benefits and certain expenses to provide commuting transportation to employees. The cost of providing employee's transit passes or parking is no longer allowed as a deduction to the employer. In addition, the costs associated with providing transportation for an employee's commute to work are not deductible unless necessary to ensure an employee's safety.

Business related travel expenses are still deductible under the new law. This includes business travel between job sites, travel to a temporary assignment (generally one year or less) that is outside your general area of residence, travel between primary and secondary jobs, and all other cab, bus, train, airline, and automobile expenses. Any regular commuting expenses to your primary job cannot be deducted. The Tax Cuts and Jobs Act changed the deductibility of unreimbursed employee expenses. Previously if a taxpayer incurred business travel expenses that the company did not reimburse, they could deduct these on their individual income tax return (subject to limitations), but under the recent law changes this is no longer allowed.

Substantiation—To support business travel deductions, keep supporting documents for expenses. Document the following: Date, place, amount, and business purpose of expenditures; name and business affiliation or business purpose of trip; and in the case of meals, all of the above must directly precede or follow a substantial business discussion associated with your business. Be sure to keep personal expenses separate from business expenses.



2021 Standard Mileage Rates

Business	56¢	per mile	Medical	16¢	per mile
Moving*	16¢	per mile	Charitable	14¢	per mile

* For members of the U.S. Armed Forces (or their spouse or dependents).

- You may deduct expenses for an automobile you own in one of two ways: either record and deduct your actual expenses, including depreciation, or record your mileage and deduct a standard amount per mile of travel, plus parking and toll fees.

- Since annual depreciation limits apply to newly acquired automobiles, some business owners consider leasing.

Be Aware of Inventory Issues —

- Under the law changes of 2017, many businesses with $25 million or less in gross receipts can now use the cash method of accounting and not be required to account for inventory. Our qualified tax professionals, can help you determine if you qualify.

- In times of rising prices, using the LIFO (last-in, first-out) inventory identification method can lower income tax. It increases your cost of goods sold (thereby reducing your taxable income) by assuming that the higher priced inventory units you most recently purchased were the ones actually sold.

- In times of falling prices, the FIFO (first-in, first-out) inventory identification method may provide larger tax savings. It assumes the higher priced inventory units you purchased first are the ones you have sold.

- Inventory methods can be changed. We can help you decide what is most advantageous and advise you on the procedure for changing methods.

- Corporations with excess inventory may donate that property to charitable organizations and receive a tax deduction. You may deduct the cost of the goods and half of the lost profit (not to exceed twice the cost).

Put Your Kids to Work—Your child's wages are fully deductible as a business expense. If you are a sole proprietor, or you and your spouse are the only owners of an entity taxed as a partnership, you do not have to pay FICA on those wages if the child is underage 18, nor do you have to pay unemployment insurance if the child is under age 21. Your child's wages may be subject to a lower tax rate than if you were to retain the money as business earnings.

Go into Business with Your Kids —

Children may be partners in partnerships or shareholders in S corporations, which may reduce the overall family tax burden in certain situations.

Deduct Business Losses —

- Net operating losses (NOLs) are generated when a company's deductions for the tax year are more than its income. Under the Tax Cuts and Jobs Act of 2017, carrybacks of NOLs are no longer allowed, but an indefinite carryforward of NOLs is allowed. The 2017 law also sets a limit on the amount of NOLs that a company can deduct in a year equal to the lesser of the available NOL carryover or 80% of a taxpayer's pre-NOL deduction taxable income.

- Corporate capital losses are currently deductible, but only to the extent of capital gains. A three-year carryback and a five-year carryforward period apply.

- If your business is not incorporated or operates as an S corporation, partnership, or LLC, you may deduct business losses on your personal tax return. However, NOL deductions may be limited by at-risk or passive activity loss rules.

- Bad business debts are deductible in full or in part as ordinary losses when good faith collection efforts fail. Inventory losses, casualty and theft losses (to the extent they are not covered by insurance), and losses on the sale of business assets may also be deductible.

Tax Saving Strategies

FOR BUSINESS OWNERS

- To the extent possible, shift income into next year.
- Set up a nonqualified deferred compensation plan for your highest paid employees.
- Consider a compensation and benefit study to see what makes sense for your company from a tax perspective.

Retirement Strategies

The trend continues to shift toward providing for one's own retirement so saving for retirement should be an essential part of your financial plan. Contributions to retirement plans can offer two large tax benefits: 1) they potentially reduce your AGI and current income tax, and 2) they can grow faster than your other assets because they're sheltered from tax until withdrawn. Take advantage of your employer's plan especially if it features an employer match or you can make catch-up contributions. Don't contribute to a Roth or traditional IRA at the expense of an employer match.

There is a "saver's credit" on the first $2,000 contributed to retirement plans for low- and moderate-income taxpayers (see chart below). Taxpayers who are younger than 18 years, full-time students, or can be claimed as a dependent on another's return cannot take the credit. The credit is trimmed if the taxpayer took a payout from a plan or IRA the same year or the two previous years. Maximum credit: $2,000 for Married Filing Jointly; $1,000 for Single and all others.

2021 Saver's Credit

on first $2,000 contributed to retirement plans

Amount of Credit	MFJ (AGI)	HH (AGI)	Single & Others (AGI)
50%	$0–$39,000	$0–$29,250	$0–$19,500
20%	$39,001–$42,500	$29,251–$31,875	$19,501–$21,250
10%	$42,501–$65,000	$31,876–$48,750	$21,251–$32,500

When contributions to traditional IRAs and retirement plans reduce your AGI, they can potentially increase other tax benefits through the deductions and credits tied to AGI. Additionally, retirement accounts don't figure in tuition assistance formulas that colleges use to compute eligibility for aid.

Traditional IRAs and 401(k) plans provide potentially bigger long-term tax breaks and are good for those who will retire fairly soon, expect their tax rate to fall in retirement, or cannot make current contributions without plans.

INDIVIDUAL RETIREMENT ACCOUNTS (IRAs)

IRAs remain an attractive option for retirement savings. The contribution limit is $6,000 in 2021 (and will be adjusted for inflation in subsequent years). If you are age 50 or older, you can contribute an additional $1,000. Earnings grow tax deferred, and contributions to a traditional IRA may be deductible. Due to changes from the SECURE Act, for tax years beginning in 2020, working individuals are now allowed, regardless of their age, to contribute to a traditional IRA. The age cutoff used to be 70½.

If neither you nor your spouse is covered by a qualified employer-sponsored plan, you can contribute to an IRA and jointly exclude from current tax up to $12,000 (or $14,000 if both are age 50 or older) of current income, even if one spouse does not work. (Spouses cannot contribute more than their combined earned incomes.)

Is My IRA Contribution Deductible?

Plan at Work	Filing Status	2020 MAGI	IRA Deduction
You are covered	Single and Head of Household	$65,000 or less $65,000–$75,000 $75,000 or more	
	Married, Filing Jointly	$104,000 or less $104,000–$124,000 $124,000 or more	
Neither you nor your spouse is covered	Single and Head of Household	No Limits	
	Married, Filing Jointly	No Limits	
You are not covered but your spouse is	Married, Filing Jointly	$196,000 or less $196,000–206,000 $206,000 or more	
	Married, Filing Single	Special rules apply	

If either spouse participates in a qualified employer-sponsored plan, contribution deductibility is subject to MAGI limits (see chart on previous page).

Traditional IRAs must be set up by April 15 to get a deduction for the previous year and contributions are due by then as well.

Certain rules apply to traditional IRA distributions. Distributions before the age of 59½ may be subject to a 10% Federal income tax penalty in addition to the income tax that will be due. There are exceptions. For example, if you tap your IRA early to pay for qualified higher education expenses or to fund up to $10,000 of your first home, the 10% penalty does not apply.

ROTH IRAs

Roth IRAs, with their tax-free distributions, continue to be popular savings vehicles. Contributions to Roth IRAs are not deductible, and are subject to income limitations. As with traditional IRAs, you may contribute up to $6,000 to a Roth IRA in 2021 ($7,000 if you are 50 or older). Again, combined contributions to one or more IRAs may not exceed these limits.

The greatest benefits of Roth IRAs may be in transferring wealth to heirs. A Roth IRA is not subject to RMDs during the owner's lifetime, contributions are allowable at any age, and may provide far more to a beneficiary than other plans. Assets in the account for five tax years can pass to heirs without current income tax. Non-spousal beneficiaries of a Roth IRA have to take minimum distributions (which are tax-free) but can stretch them out over a lifetime. In the meantime, the Roth continues to enjoy tax-free growth.

A Roth can grow into a large sum for a child who has earned income. The parent can fund the account but the contribution amount cannot exceed the child's earned income.

IRAs for Children — If your child has earned income from outside the household, such as from a summer job or babysitting, consider opening an Individual Retirement Account (IRA). For 2021, your child can contribute $6,000 (or his or her earned income, whichever is less) to an IRA. Just how important is it to start an IRA for your child *now*?

Suppose your 15-year-old daughter saves $800 from babysitting and purchases a Roth IRA. If she makes no additional contributions and the funds grow 8% annually, she will have accumulated more than $37,000 by age 65, which will be tax free upon withdrawal. Or, suppose she opens a Roth IRA with $2,000 at age 15 and then makes annual contributions of $2,000 for the next 10 years. The value of her tax-free account at age 65 will be about $700,000 if the annual growth rate is 8%.

NOTE: The previous hypothetical examples are for illustrative purposes only. They are not intended to reflect an actual security's performance. Investments involve risk and may result in a profit or a loss. Seeking higher rates of return involves higher risks.

401(k) PLANS

401(k) plans are qualified plans offered by many employers. As an employee, you can contribute a certain percentage of your salary, as defined by the plan, or up to the contribution dollar limit, whichever is less.

The limit for elective salary deferrals in 2021 is $19,500. Those age 50 and older can contribute an additional $6,500. You do not pay taxes on contributions until you receive money from the plan, which is usually when you retire and may be paying taxes at a lower rate.

Some employers match a portion of employee contributions and may also make additional contributions on behalf of the employees. Self-employed taxpayers may make deductible matching contributions to their plans. Employer contributions may be distributed according to the plan's vesting schedule. So, if you leave a job before being fully vested, you may not receive all of the employer's contribution. You will, however, always be 100% vested in the funds you have contributed and their earnings.

ROTH 401(k)s

A Roth option may be available to those participating in traditional 401(k) plans. Like the Roth IRA, contributions to a Roth 401(k) are made with after-tax dollars, and earnings and distribu-tions are tax free, provided you have owned the account for five tax years and are at least 59½ when you make withdrawals. However, unlike the Roth IRA, Roth 401(k)s have no income restrictions, and they are subject to the more generous elective salary deferral limits that apply to conventional 401(k)s—$19,500 for taxpayers under the age of 50 and $26,000 for older workers in 2021.

You may choose to designate all or part of your elective 401(k) contributions as Roth contributions. However, matching contributions made by an employer must be invested in a traditional account, not a Roth. Participants in 401(k), 403(b), and 457(b) plans are permitted to roll over funds into Roth accounts within their plans, if available. Because contributions to traditional 401(k) s are made on a pre-tax basis, any funds transferred from traditional to Roth 401(k) accounts are taxed in the year of conversion.

SOCIAL SECURITY BENEFITS

In retirement, up to 85% of your Social Security benefits may be taxed, depending on your income level. You may be affected if your modified adjusted gross income (AGI plus half of Social Security benefits plus tax-exempt income) exceeds $32,000 ($25,000 if you are single).

The age at which individuals may start collecting full Social Security benefits is increasing. Full retirement age will increase gradually for those born after 1937 from age 65 to age 67. Early retirement at age 62 is still an option, but your monthly benefit will be reduced.

Taking benefits at age 62 may be tempting, even with the reduced benefit. However, if you choose to continue working to supplement your Social Security income, your benefits may be reduced further if you earn more than the maximum amount allowed. If you are under the full retirement age, receive Social Security benefits, *and* earn additional income in 2021, your benefits will be reduced by $1 for each $2 earned over $18,960. If you reach full retirement age in 2021, your benefits will be reduced by $1 for every $3 earned over $50,520 in months leading up to full retirement age. Upon reaching full retirement age, Social Security benefits are not reduced because of earnings.

The Social Security Administration offers online calculators to help you plan your retirement income. For more information, visit their website at www.ssa.gov.

2021 Retirement Contribution Limits

	Under Age 50	Age 50 and Over
IRA	$6,000	$7,000
401(k)	$19,500	$26,000
SIMPLE	$13,500	$16,500

OTHER RETIREMENT CONSIDERATIONS

You may want to investigate state taxation and its implica-tions for you if you're deciding where to live in retirement. Take into account the state income tax rate, state taxation of retirement benefits and Social Security, state and local property taxes, state estate taxes, and state sales tax. These can vary widely from state to state and could have a measurable impact on your finances.

Estate Planning

If it has been awhile since you reviewed your estate plan, consider doing so, as the landscape of estate and gift planning is changing. Several changes in the SECURE Act, passed in December 2019 may materially affect estate planning and beneficiary decisions that were previously made in a effort to minimize Required Minimum Distributions (RMDs) to heirs and beneficiaries. It is also important to note that state estate tax laws may differ from Federal estate tax laws, and state estate tax laws may differ from state to state.

Benefits of Estate Planning

	With an Estate Plan	Without an Estate Plan
Your Assets	You decide who gets what	Inheritance is determined by state law
Your Children	You choose the guardian	The court appoints a guardian
Your Inheritance	You decide how and when beneficiaries receive their inheritance	Terms and timing are set by law
Your Business	You decide how the family business is to continue	Forced sale or liquidation may cause financial loss and family hardship
Your Executor	You decide who will manage your estate	The court appoints an executor
Your Final Expenses	You can reduce estate settlement costs	Costs may add up due to administrative expenses and unnecessary taxes

Estate Tax Law Changes —

The estate planning landscape has been marked by change and uncertainty over the years. Under 2001 tax law, the Federal estate tax became progressively generous in the run-up to 2010, when it was phased out completely for a single year. Under the 2010 Tax Relief Act, the Federal estate tax was reinstated. The Tax Cuts and Jobs Act of 2017 doubled the exemption amounts from 2018 to 2025. In 2021, there is a top tax rate of 40% and an exemption amount of $11.7 million, or $23.4 million for married couples.

Early preparation is key to developing appropriate strategies to minimize potential estate taxes and ultimately maximize the amount transferred to your heirs. With the reinstatement of estate taxes, the exemption allows you to transfer $11.7 million to your children or other heirs tax free at death. (Bear in mind that an unlimited amount may be passed tax free to a spouse.) If you are married and your combined assets (including life insurance) surpasses $23.4 million, consider implementing advanced planning tools, such as trusts, to help minimize taxes.

Estate, Gift, and GST Tax Exemptions

Estate Tax Rate Exemption	40%	$11.7 million
Gift Tax Rate Exemption	40%	$11.7 million
GST Tax Rate Exemption	40%	$11.7 million

TRUSTS

A trust, simply defined, is an arrangement whereby one person holds legal title to an asset and manages it for the benefit of another. One of the valued characteristics of a trust is its ability to bridge the gap between life and death, allowing a person to "rule from the grave," so to speak. Generally, a trust may be established to last for many generations, ending 21 years after the death of the last named beneficiary, or after a specific number of years as permitted by state law.

BENEFICIARY DESIGNATIONS

Your provisions in a will do not necessarily supercede or trump the beneficiary designations you make in trust agreements, insurance policies, bonds, bank accounts and retirement and profit-sharing plans, which can represent most of an estate. These may trump a will, so keep them up to date. Better yet, make sure your will and such designations agree. Don't name your child as beneficiary if your spouse will need the money. These are critical issues to keep in mind.

Gifting Benefits

- Post-gift appreciation escapes the estate tax.
- To the extent of the $15,000/$30,000 per donee, per year annual exclusion, no transfer tax is ever imposed.
- Gift tax paid reduces your taxable estate. (Limited exceptions apply.)
- Post-gift income produced is taxed to lower tax bracket donees.

ESTATE PLANNING STRATEGIES

- "Gifting" is a great way to gradually transfer your estate and ultimately minimize your estate tax burden. Each year, you may make gifts of $15,000 to as many recipients as you wish, tax free. If you and your spouse "split" gifts, then as much as $30,000 may be given to an unlimited number of recipients tax free.
- If you own stock temporarily depressed in value but with high appreciation potential, consider giving it to your children now. The gift tax impact (determined by the fair market value on the date of gift) may be reduced. When the stock price recovers, you can enjoy a second benefit—the increase in value does not increase your estate tax base.
- If you would like to make a gift to a grandchild (or anyone else) and not be limited by the annual exclusion amount, you can make a direct payment to the providers for education (tuition only) and medical expenses. Gifts of this nature do not count toward the annual limit. You can also exclude gifts of tuition or medical payments made now for future services.

- If you wish to make gifts of more than $1 million, consider transferring funds in exchange for an installment note. Proceeds from the note can be distributed to the obligors at death and be sheltered by the estate tax exemption.
- If you are married, be sure to understand the portability provision under the 2010 Tax Relief Act, which was made permanent for 2013 and beyond by the American Taxpayer Relief Act. It allows the estate tax exemption to be transferred between spouses. For estate planning purposes, this means that husbands and wives do not have to split assets between them, or be concerned about who holds the title on various assets.

  Yet, these changes to the estate tax do not eliminate the need for planning. Wealthy taxpayers who currently fall within the exemption limits may still want to consider setting up a bypass trust. In addition, couples with different sets of final beneficiaries, such as children from previous marriages, may wish to set up a bypass trust in order to clarify the beneficiaries of their separate assets.
- In light of ever-changing tax laws, it is important to review your estate conservation strategies. We can help you develop appropriate strategies for your situation.

Tax Saving Strategy

Set up a trust to own life insurance so that the value of the policy can be excluded from your taxable estate.

SUCCESSION PLANNING

If you have spent the greater part of your life building a profitable business, implement a business succession plan. At a minimum, a good plan can help you accomplish the following:

- Transfer control according to your wishes.
- Carry out the succession of your business in an orderly fashion.
- Minimize the tax liability for you and your heirs.
- Provide financial security for you and your family after you step down.

Here are some ideas for

Succession Planning:

- Gift stock to family members. Begin now so ownership can be transferred while avoiding unnecessary transfer taxes.
- Employ a buy-sell agreement that fixes the estate tax value of your business. An effective agreement provides estate tax liquidity and provides your successors with the means to acquire your stock.
- Create an employee stock ownership plan (ESOP) and sell your stock to the plan. Special rules allow you to sell your stock to the ESOP and defer the capital gains tax if you reinvest in qualified securities. Ownership can be transferred to your employees over time, and your business can obtain income tax deductions for plan contributions.
- Plan to qualify for the estate tax installment payment option. It allows you to pay the portion of your estate tax attributable to your closely held business interest over a period of up to 14 years. Artificially low interest rates apply during the tax-deferral period. Other special rules apply.

ACT NOW

Early planning is key to making the most of your opportunities, especially considering the changing tax laws. We are here to help you reduce your current tax bill and plan for the future. Contact us when planning transactions and before year-end. We will keep you up-to-date.

Be advised that this information was not intended or written to be used, and cannot be used, for the purposes of avoiding tax-related penalties or for promoting, marketing, or recommending to another party any tax-related matters addressed herein.

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