

2021 Year-End Tax Planning



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- Washington Business Journal's
Top 25 Accounting Firms
- Accounting Today's
Top Firms in the Capital Region for 2021

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- This presentation will be recorded and made available to download at www.grfcpa.com/webinars.
- Technical questions about the survey can be addressed to Nathan McElveen at nmcelveen@grfcpa.com.

Housekeeping

Additional Information

Learning Objective To provide attendees with a better understanding of how you should position your assets for the best tax advantage.	Instructional Delivery Methods Group Internet-based
Recommended CPE 1.0 CPE Credit	Recommended Fields of Study Tax
Prerequisites None required	Advance Preparation None
Program Level Basic	Course Registration Requirements None
Refund Policy No fee is required to participate in this session.	Cancellation Policy In the event that the presentation is cancelled or rescheduled, participants will be contacted immediately with details.
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Agenda



Individual Tax
Discussion



Business Tax
Discussion



Potential
Changes

2021 Income Tax Rates for Individuals

Filing Status				
Rate (%)	Single	Head of Household	Married Filing Jointly and Surviving Spouses	Married Filing Separately
Ordinary Income Brackets				
10%	\$0 to \$9,950	\$0 to \$14,200	\$0 to \$19,900	\$0 to \$9,950
12%	\$9,951 to \$40,525	\$14,201 to \$54,200	\$19,901 to \$81,050	\$9,951 to \$40,525
22%	\$40,526 to \$86,375	\$54,201 to \$86,350	\$81,051 to \$172,750	\$40,526 to \$86,375
24%	\$86,376 to \$164,925	\$86,351 to \$164,900	\$172,751 to \$329,850	\$86,376 to \$164,925
32%	\$164,926 to \$209,425	\$164,901 to \$209,400	\$329,851 to \$418,850	\$164,926 to \$209,425
35%	\$209,426 to \$523,600	\$209,401 to \$523,600	\$418,851 to \$628,300	\$209,426 to \$314,150
37%	\$523,601	\$523,601	\$628,301	\$314,151

Standard Deduction vs. Itemized

- Standard deduction increased to
 - \$25,100 for married filing jointly.
 - \$18,800 for heads of household.
 - \$12,550 for single individuals.
- Review Itemized deductions for the year to determine best course of action.



Specific Itemized Deductions

- Medical expenses 7.5% of adjusted gross income is the floor for 2021.
- To date the State and local tax deduction is still capped at \$10,000
- Mortgage Interest
 - Mortgage prior to December 15, 2017 – cap is \$1,000,000.
 - After December 15, 2017 – cap is \$750,000.
- Home equity loans are only deductible if used for buying, building or fixing up the taxpayer's residence.
- If you can't itemize your deductions but give to charity regularly you can bunch charitable contributions into one year to generate higher charitable contributions in one year thereby increasing your itemized deductions above the standard deduction threshold.

Cap Gains, Charity & Tax Planning

- **Example:**

- AGI \$700,000 (including \$50,000 gain on Apple stock)
- Stock Basis \$50,000
- Stock Fair Market Value \$100,000
- Filing Status: Married Filing Joint

- If you contribute to the charity every year you may want to consider contributing stock rather than cash.
 - If you simply sold the Apple stock in 2021, you would recognize a gain on the sale of the stock of \$50,000 (\$100,000 FMV - \$50,000 Basis – what you paid for it) for this taxpayer they would pay 20% tax on the capital gain plus the net investment tax 3.8%: \$11,900 (50,000 x 23.8%)
 - If the taxpayer determines they want to contribute \$100,000 to a charity with the ordinary income they have already paid tax on in this case 37% they would get the full deduction this year but would not be able to avoid recognizing the gain on the sale of the Apple stock.

Cap Gains, Charity & Tax Planning

- **Example:**

- AGI \$700,000 (including \$50,000 gain on Apple stock)
 - Stock Basis \$50,000
 - Stock Fair Market Value \$100,000
 - Filing Status: Married Filing Joint
- Because we are contributing the stock our AGI is now \$650,000
 - Contributed capital gains have a 30% AGI limitation: $30\% \times \$650,000 = \$195,000$. This means the \$100,000 contribution won't be limited.
 - By contributing your \$100,000 to charity you reduce your taxable income to \$550,000 AND you avoid the recognition of the gain on the sale of the Apple Stock.
 - Your total tax changes from $\$189,412 - \$174,637 = \$14,775$
 - If you're interested in capital gain tax planning options please get in touch with us. This area could become an even more valuable tax planning option if the current law being debated in congress is passed because of the potential for the preferential capital gains rate being retired.

Other Ways to Reduce Your Taxes

- Use your year-end bonus to max out your 401(k)/403(b)
- Hold investments for more than one year before selling – LTCG
- Sell investments at a loss to offset capital gains.
- Accelerate medical expenses to get over 7.5% threshold.
- Contribute to your IRA (deductible under certain circumstances)
- Don't miss out on common tax credits (Child, Childcare, Education*) **subject to phase-out*



Advance Child Tax Credit Warning

- If you are receiving the monthly payouts for the advanced child tax credit beware that you may need to pay all or a portion of it back.
 - The old rule provided child tax credits of up to \$2,000 per children under age 17. You received this credit on your tax return and it was phased out when AGI levels exceeded \$400,000 for Joint returns and \$200,000 for all other returns.
 - The new rule allows for a child tax credit of \$3,000 per child under age 18 and \$3,600 for children under 6 at 12/31/21. The increased amounts phase out at \$150,000 on a joint return (\$112,500 HOH & \$75,000 Single) down to \$2,000. The \$2,000 phases out as before.
 - 50% of the credit is required to be paid in advance through 6 Monthly installments beginning on 7/1/21. The calculation is based on your 2020 AGI level.
 - This credit will be reconciled on the 2021 return...

Advance Child Tax Credit Warning

- Two potential traps for the unwary

- First, if you did not opt out of the advance payments, then you should expect your child tax credit claimed on your tax return to be half of what it would have been. For example:
 - If your AGI in 2020 was \$145,000 and you are married and filing jointly and have 2 children over 6 and under 18 - your child tax credit for 2021 is \$6,000.
 - If you didn't opt out of advance payments the credit on your tax return will be \$3,000 because the other \$3,000 was to be paid out in 6 installment from 7/15 – 12/15.
- Secondly, if you take our example above and in 2021 your AGI is \$155,000 you will have to payback a portion of the additional tax credit received because your 2021 AGI is more that the phaseout threshold for the additional tax credit.

Virtual Currency

- This is a hot topic with the IRS
 - They are treated as a capital asset
 - You do have to report on your tax return whether you bought, sold, received or transferred virtual currencies.
 - Because the value of virtual currencies are constantly changing, if you held a currency at anytime during the year you most likely have a gain or loss
 - Exchanges are getting better at tracking basis but if you transferred a currency between exchanges, you may have some work to do in tracking the basis of those coins.
 - Most important thing you can do is track the transactions you make and convert the transactions to USD

Polling Question #1

Which statement best describes where you currently stand with your 2021 tax planning?

- A. *I have already done my planning for 2021*
- B. *I am interested in planning but I have not begun the process*
- C. *I do not plan on doing any planning this year*

Qualified Business Income Deduction Overview

- Taken on your personal return when you have domestic “qualified business income” (QBI)
 - Sole Proprietorship (Schedule C)
 - Partnership income
 - LLC income
 - S-Corp income
 - Rental income
 - Note: All K-1s must provide the required information to be able to claim the deduction



Qualified Business Income Deduction

Continued

- Deduction equal to the **lessor** of 20% of QBI or 20% of taxable income (after removing capital gains/losses).
- The Specified Service (defined on the next slide) and Wage limitations phase in on a MFJ return with taxable income from \$329,800 – \$429,800 and on all other returns with taxable income from \$164,900 – \$214,900.
- For taxpayers who are not a specified service and have AGI above the phase-out limits their QBID is further limited to the greater of:
 - 50% of W-2 Wages (box 5) or
 - 25% of W-2 Wages (box 5) plus 2.5% of the unadjusted basis of depreciable assets.
- QBID FAQ on IRS website <https://www.irs.gov/newsroom/tax-cuts-and-jobs-act-provision-11011-section-199a-qualified-business-income-deduction-faqs>

QBID

Further Restrictions

- Specified Service Business - defined in §1202(e)(3)(A): “any trade or business involving the performance of services in the fields of:
 - Health
 - Accounting
 - Performing Arts
 - Consulting*
 - Any other trade or business where the principal asset is the reputation or skill of an owner or employee. Defined in the regulations as income from endorsements, licensing and appearance fees.
 - Law
 - Actuarial Services
 - Athletes
 - Financial Services and Brokerage

Note: Architects and Engineers are OK as are Real Estate and Insurance Agents/Brokers

**Consulting – the provision of professional advice and counsel to clients to assist the client in achieving goals and solving problems. Consulting includes providing advice and counsel regarding advocacy with the intention of influencing decisions made by a government or governmental agency and all attempts to influence legislators and other government officials on behalf of a client by lobbyists and other similar professionals performing services in their capacity as such. The performance of services in the field of consulting does not include the performance of services other than advice and counsel, such as sales (or economically similar services) or the provision of training and educational courses.*

QBID

Other Considerations

- S-Corp shareholder compensation
 - Reduces QBI (is an issue for taxpayers below income thresholds)
 - Reasonable compensation
 - May want to increase if subject to wage limitation
- Guaranteed payments are not QBI
- REIT Dividends and PTP income qualifies as QBI
- QBI does not include foreign income
- QBID is calculated on a per business basis and then aggregated (can elect to aggregate the calculation if over income limits and you meet the criteria to do so)
- Net QBI losses carryover to the next year



Polling Question #2

Has the QBID been a significant benefit to you?

- A. *Yes, I have claimed a substantial deduction since 2018.*
- B. *No, I do not have any QBI on my return.*
- C. *Not yet but hopefully it will be this year.*

Depreciation/Cost Recovery

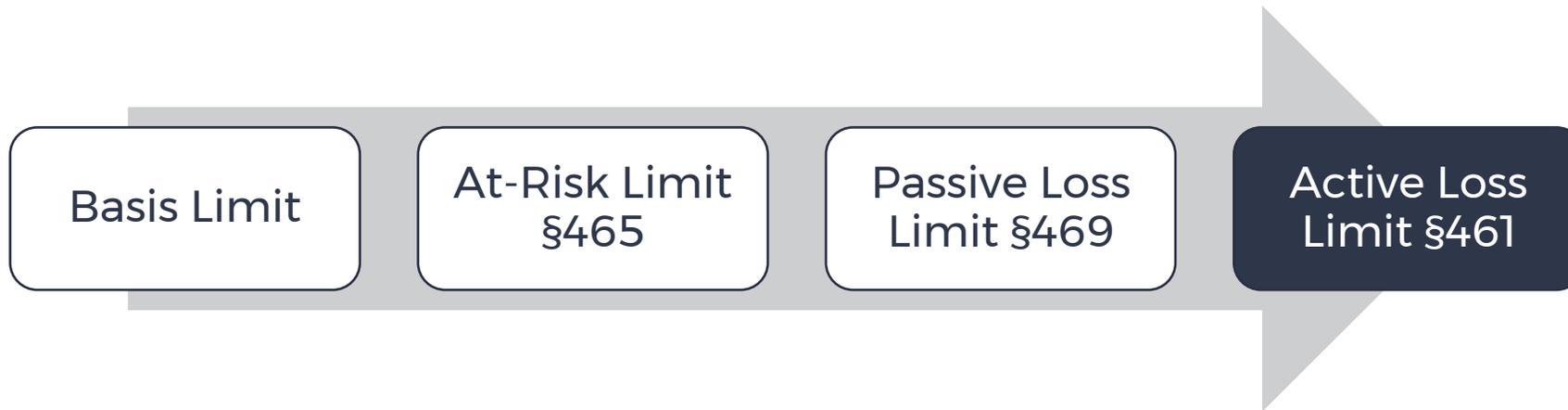
Bonus and Section 179 Deduction

- Bonus Depreciation (100% for 2021)
 - Applies to the cost of new or used property.
 - Applies to property with *3, 5, 7, 10, 15, 20 year life classifications*
 - *Can create a loss*
 - Section 179 Deduction
 - For 2020, a taxpayer may expense (under IRC §179) up to \$1,050,000 of qualified property. However, this is phased out if a business places over \$2,620,000 of property in service during the tax year.
 - Section 179 applies to new and used property.
 - Cannot create or increase a loss (balance of deduction carries over)
- * Limits on passenger automobiles.



461(l) Loss Limitation Rules

- Suspended for tax years 2018 – 2020. If limitation was applied on 2018 or 2019 return an amended return is required.
- Overview of the law:
 - Active business loss limited to \$524,000 MFJ and \$262,000 for all other returns.
 - Applied on taxpayer level (rather than business level)
 - Excess can only be carried forward



Employee Retention Credit

Basics

ERC = Credit against payroll taxes based on qualified wages paid by an eligible employer.

Eligible Employer = Must meet Business Suspension Condition or Gross Receipts Condition

The Cares Act – Based on Qualified Wages paid March 13, 2020 – December 31, 2020

- Maximum Credit of \$5,000 per employee (50% of up to \$10,000 in wages paid)
- Gross Receipts Condition = Eligibility begins in qtr with >50% reduction in gross receipts compared to same quarter in 2019 and ends with QTR in 2020 where the corresponding reduction is <20%.

Employee Retention Credit

Basics



Consolidated Appropriations Act & ARPA – Based on Qualified Wages paid January 1, 2021 - September 30, 2021*

- Maximum Credit of \$7,000 per employee per qtr (70% of up to \$10,000 in wages paid each qtr)
- Gross Receipts Condition = Eligible in each qtr where there is a >20% reduction in gross receipts compared to same quarter in 2019 (or 2020 if not in business in '19).

* ERC was cut short by the recently passed Infrastructure Investment and Jobs Act.

Pass-Thru Entity Tax

- Maryland (new in 2020)
 - Allows tax to be assessed and therefore deducted at the entity level (on MD sourced income). 8%
 - Applies to both residents and nonresident partners/members/shareholders. Nonresidents should still file a return to report their income and tax credit.
 - Credit can be taken on MD resident/nonresident return.
 - Annual election. Made by the filing for form 511.



Pass-Thru Entity Tax

- New York (new for 2021)
 - Allows tax to be assessed and therefore deducted at the entity level. (Calculated on all income for residents and only on NY sourced for nonresidents) Tax rates between 6.85% - 10.90% (lower rate on income under 2M)
 - Applies to both residents and nonresident partners/members/shareholders. Nonresidents should still file a return to report their income and tax credit.
 - Credit can be taken on NY resident/nonresident return.
 - Annual election (irrevocable) made online between 1/1 and 3/15 of the effected tax year. (Too late for 2021)
 - States w/similar PTET provisions: AL, AZ, AK, CA, CO, CT, GA, ID, IL, LA, MN, NJ, OH, OK, OR, RI, SC, WI

Other Ways to Reduce Business Related Income

Other Income/Deductions

- Report unreimbursed business expenses related to pass-through activities (partnerships)
- Contribute to your SEP IRA.
- Take the Home Office deduction.
- Deduct business mileage for your personal automobile.



Other 2021 Tax Law Changes

- Net Operating Losses for 2021 must be carried forward and subject to 80% limit (Losses for 2018-2020 could be carried back 5 years)
- Business meals expense spent in restaurants 100% deductible in 2021 and 2022.
- 3rd round of Recovery Rebate \$1400 per person (AGI limit 75-80/112-120/150-160)
- No exclusion for unemployment compensation.
- Maximum Dependent Care Credit increased to \$4,000/\$8,000 for tax year 2021 (subject to phase outs). Dependent Care FSA max 10,500.



Polling Question #3

Do you plan to take advantage of the new Pass-Through Entity Election?

- A. *Yes, it would save me a lot of federal tax*
- B. *No I do not have any PTE income or do not see much benefit*
- C. *Not sure, I need to look into it.*

Ways to Increase Income



- Do a Roth Conversion (while you still can).
- Sell investments to increase capital gains (if other income is low then there is a zero tax rate on LTCG up to certain limits)
- If you are over 59 ½ take money out of your IRA/qualified plan.

Joe Biden's Proposed Tax Changes

Highlights

- Increase top ordinary tax rate to 39.6% (450K joint, 425K HOH, 400K Single) (2021 income over \$523,601 single and \$628,301 Joint).
- Increase top LTCG rate to 25% on those in the highest ordinary tax bracket. (current top rate is 20%). **Effective for sales as of the date of enactment.**
- Expand the Net Investment Tax of 3.8% to apply to business income for people with income over 400K single, 500K joint.
- Add a 3% surtax on returns with AGI above \$5M
- Cap the QBID at 400K on a single return and 500K on a joint return.

Joe Biden's Proposed Tax Changes

Highlights

- Make permanent the excess business loss limit and make any carryover subject to the same limit.
- Increase SALT cap to \$80,000 (subject to phase out)
- Wash sale on commodities, currencies and crypto.
- Various tax credits for electric vehicles/green energy.
- Extends or makes permanent the 2021 increased child credit of 3,000 per child (6-17), the increased dependent care credit to up to \$4,000 for one child and \$8,000 for 2+ children and the increased dependent care FSA of \$10,500. (credits subject to phaseouts)
- Change corporate tax rate to 18% on fist 400K, 21% from 400K to 5M and 26.5% over 5M and on PSCs.



Joe Biden's Proposed Tax Changes

Highlights

- Lower the Estate/Gift exemption to its 2010 level indexed for inflation (about \$6M)
- Potential inclusion of grantor trust assets in decedents estate (new trusts)
- Elimination of valuation discount for transfers (gifts?) of nonbusiness assets.
- RMDs required for people with combined IRA/Roth IRA and Defined contribution plan balances over 10M who also have income above 400K single and 450K joint. RMD is 50% of the value over 10M. Other requirements if balances are over 20M. IRA contributions also limited for these folks.

Joe Biden's Proposed Tax Changes

Highlights

- Roth conversions (including those inside an employer sponsored plan) are disallowed for single filers at 400K in taxable income and joint filers at 450K starting in tax year **2032**. Also after-tax contributions to qualified plans and nondeductible IRA contribution conversions to Roths are no longer allowed as of 2022.
- IRAs can no longer hold investments that require accredited investor status. (2 yr timeframe to correct the issue.).
- IRAs can no longer invest in entities where the owner is an officer or owns 10% or more of the company (nonpublic). (2 yr to correct)
- R&D amortization requirements delayed until 2026. (was to take effect in 2022).
- S-Corps in existence on 5/13/1996 can reorganize as a partnership tax free in 2022 or 2023 if they want.



Questions?

Contact Us



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