



2021 Year-End Tax Planning

For Individuals, Families, and Trusts

MEET THE SPEAKERS



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MEET THE SPEAKERS



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Standard Deduction

2021 Standard deduction

- Single - \$12,550
- Married Filing Jointly - \$25,100
- Head of Household - \$18,800
- Married Filing Separately - \$12,550
- Qualifying Widow(er) - \$25,100

State Taxes

- Cap on state and local taxes (or sales tax if higher) is still \$10,000. Enacted through 2025.
- Continues to pose a problem for those in states with high income/real estate taxes.

Home Mortgage Interest

Mortgage debt:

- Limit to 750K
- Mortgages entered into after December 15, 2017.
- Any mortgages prior to this are grandfathered in (Home Equity Loan is not grandfathered in).
- This is in place through 2025



Home Mortgage Interest

Home Equity debt, generally not deductible (unless)

- Qualifies for the mortgage interest deduction (e.g. used for improvement of the home etc.)
- The equity line plus the original mortgage is not above 750K.
- You are no longer able to deduct 100K of home equity debt used for other purposes.

REMINDER: Miscellaneous itemized deductions have been removed.

- Tax prep fees
- Hobby expenses
- Investment fees/expenses
- Legal fees related to producing income
- Safe deposit box fees
- Home office deduction*

Itemized
Deductions
Removed

8

Charitable Contributions

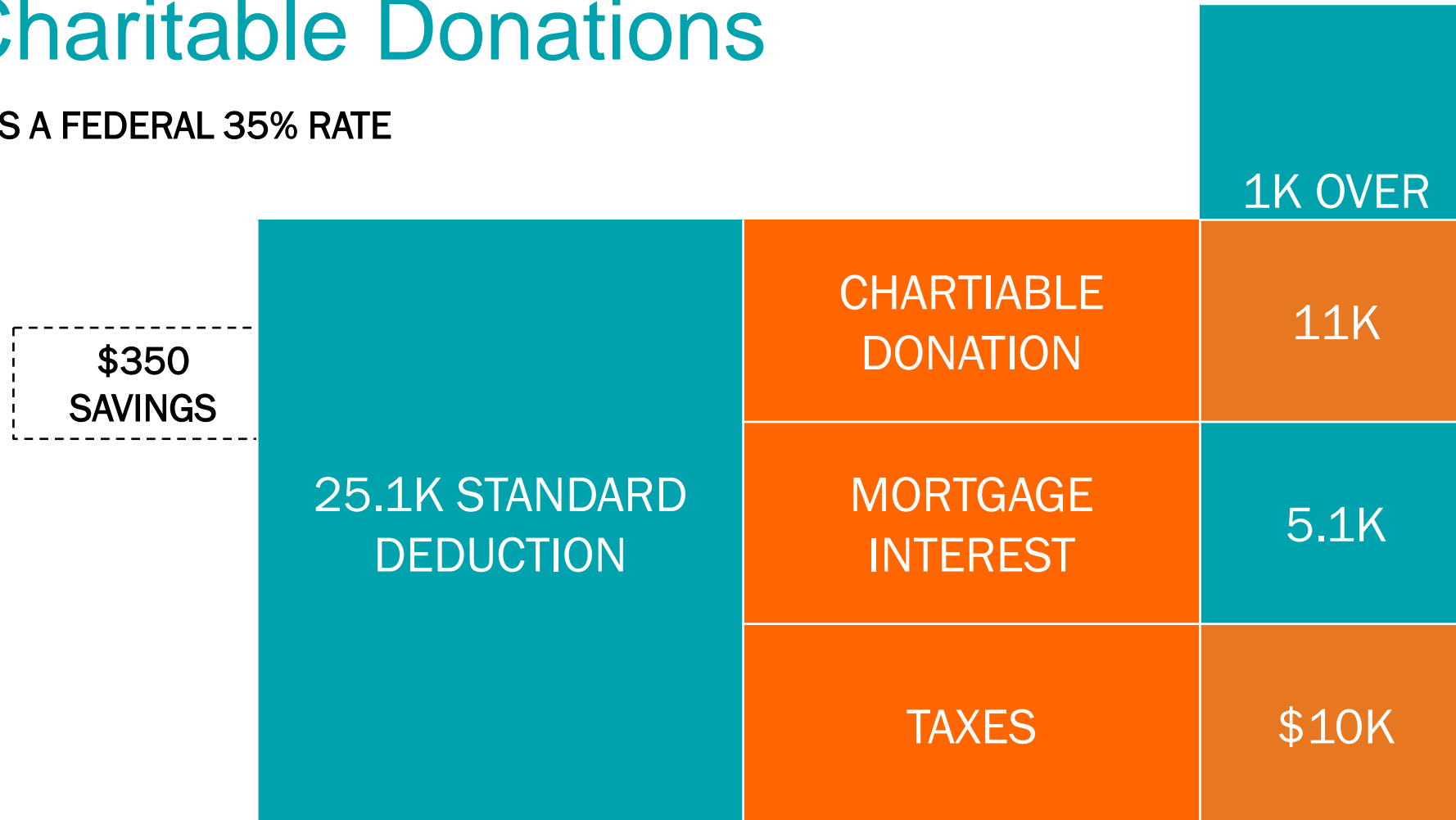
- Given the substantial increase in standard deductions, people that may have itemized in the past may not do so anymore
- One way around this would be to “stack” donations.
- Use of Donor Advised Funds.
- 100% AGI Limitation on Cash Donations (2021). Other donation limitations remain the same.

Donor Advised Funds

- Contribute appreciated stock, cash, privately held business interest and other non-publicly traded assets.
- Immediate tax deduction.
- Ability to spread the donation out over a number of charities over a number of years.

How a Higher Standard Deduction Affects the Deductibility of Charitable Donations

ASSUMES A FEDERAL 35% RATE



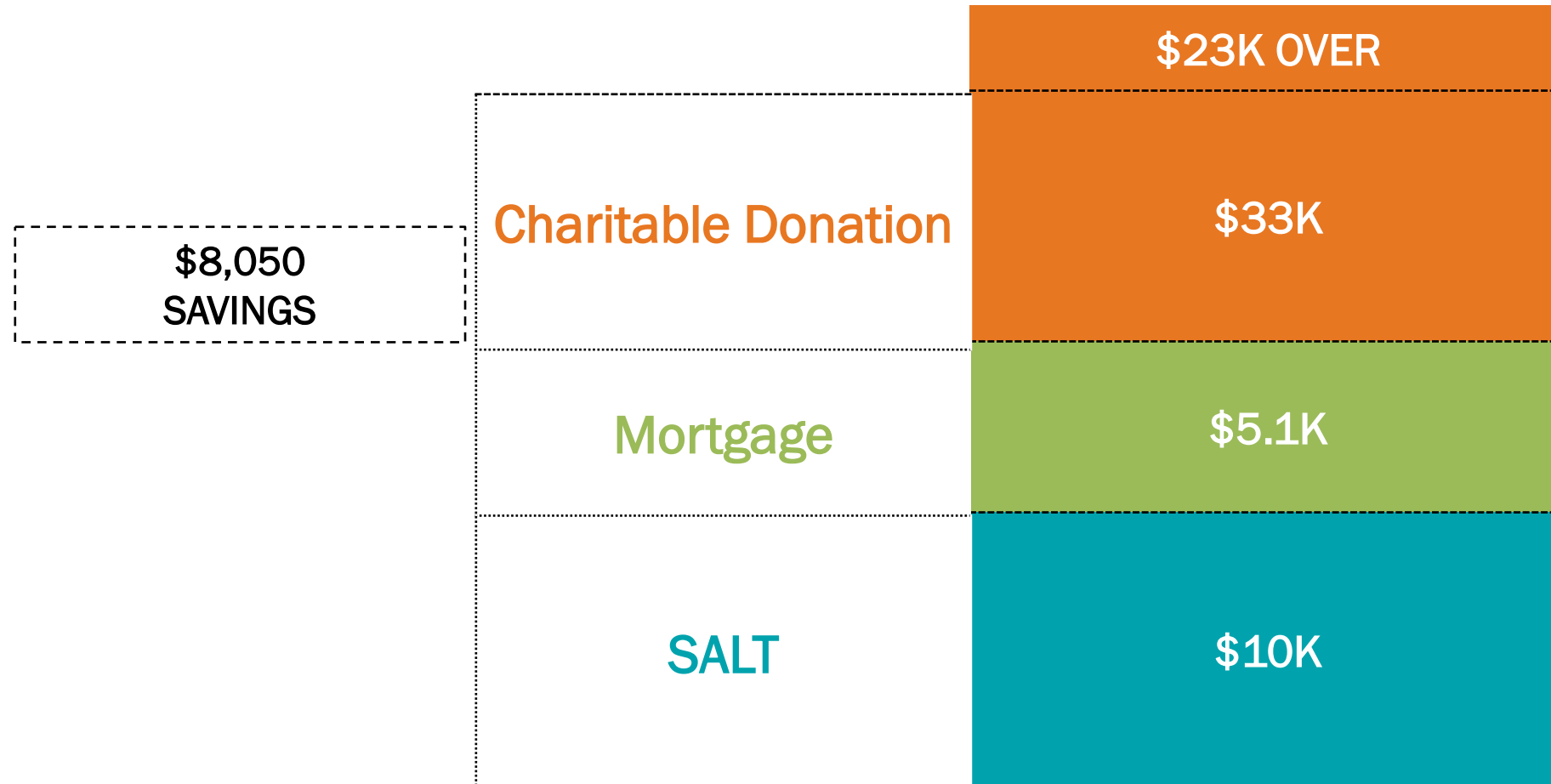
How a Higher Standard Deduction Affects the Deductibility of Charitable Donations

ASSUMES A FEDERAL 35% RATE

		2021	2022	2023
<div style="border: 1px dashed black; padding: 5px; display: inline-block;"> \$1050 SAVINGS </div>		1K OVER	1K OVER	1K OVER
		25.1K STANDARD DEDUCTION	CHARITABLE DONATION	11K
	MORTGAGE	5.1K	5.1K	5.1K
	TAXES	\$10K	\$10K	\$10K

Bunching Strategies Using a Donor Advised Fund

ASSUMES A FEDERAL 35% RATE



Alternative Minimum Tax

Less people are subject to it due to:

- Increased AMT Exemption
- Cap on State and local taxes
- Removal of Miscellaneous Itemized Deduction

- Large amount of capital gains and dividend income
- Exercise and Hold of ISOs – Timing here is Key!
- Tax Exempt interest on certain private-activity municipal interest

AMT Triggers

15

Child Tax Credit

- Increased to:
 - \$3,600 per child under age 6
 - \$3,000 per Child over age 6 – 17
- New Phase out (in addition to old)
 - Begins at \$150K for Married filing joint and \$112,500 for Head of Household.
 - Will not lower credit below the original credit amount of \$2,000.
 - Still could be subject to original phaseouts to reduce it to \$0.

Child Tax Credit

- Advanced Payments
 - Half of the credit was available to be received in advance (15th of every month beginning in July). Through the end of 2021
 - Automatic opt in – Had to go to the IRS website and opt out



● Child Tax Credit

Advanced Payments

- \$300 per child 5 and under
- \$250 per child 6-17
- Other half of credit will be picked up on 2021 tax return

Health Savings Accounts (HSAs)

- HSAs allow pretax or deductible contributions – 2021 Limits
 - \$3,600 for Self coverage
 - \$7,200 for Family coverage
 - Additional \$1,000 for those age 55 or older
- Must be covered by a qualified high-deductible health plan

Health Savings Accounts (HSAs)

- Can be invested or bear interest
- Grows Tax Free similar to an IRA
- Withdrawals for qualified medical expenses are tax-free
- You are able to carry over remaining balances from year to year

“Back Door” ROTH IRA Contributions

If you are subject to the income limitations and aren't able to contribute directly to a Roth, consider doing a “back door” Roth

- Set up a traditional IRA
- Make a Non-deductible Contribution

“Back Door” ROTH IRA Contributions

- Covert the account to a Roth IRA
- Only works well if you don't have other IRAs

Build Back Better Framework: September Proposal



Increased Tax Rate



Increased Capital Gain
Rate



Increased restrictions
of Roth Contributions
and conversions

Build Back Better Framework: Early October Proposal

- Eliminated proposed tax rate increase
- Implemented a billionaire's tax based on unrealized gain on billionaire's assets
- Proposal lasted 72 hours

Build Back Better Framework: Latest Proposal

- 5% Tax (Surcharge) when Modified Adjusted Gross Income goes above 10 million (MFJ)
- Additional 3% when income exceeds 25 million (so 8% for those taxpayers)
- State and local tax cap is still being discussed.



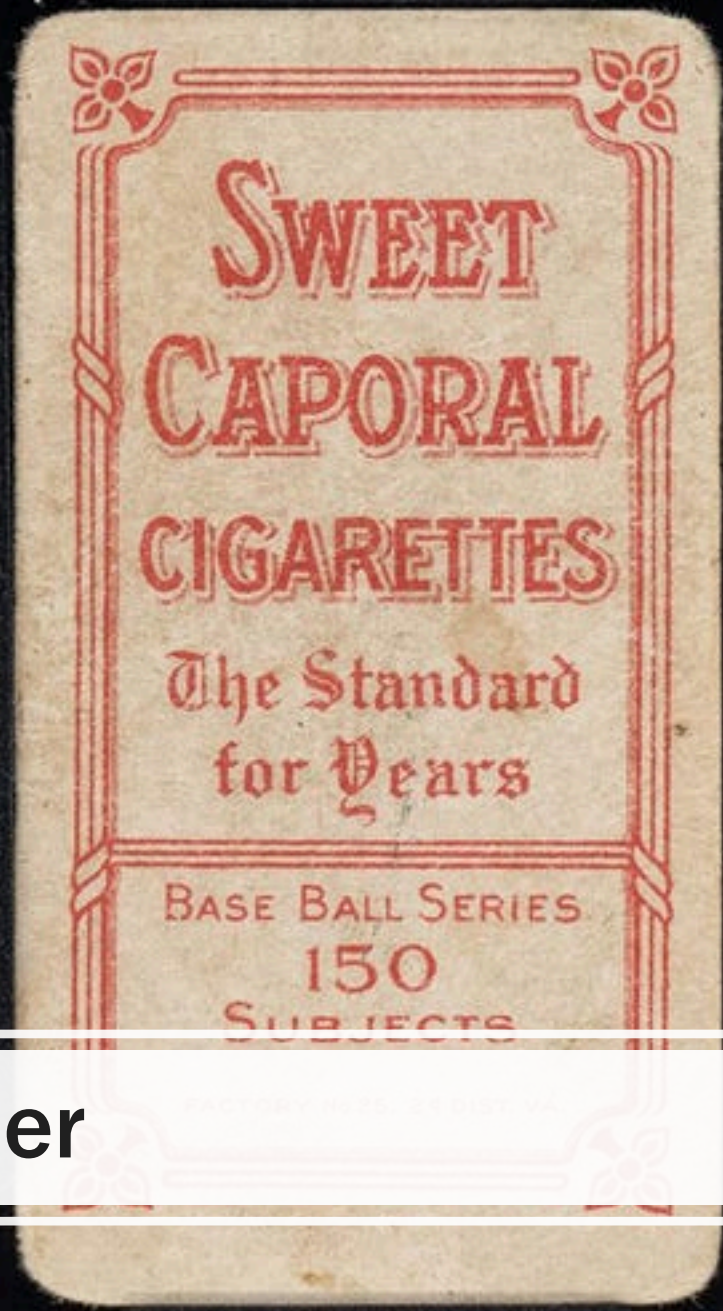
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**Polling Question #1:
Have you funded a
Donor Advised Fund
before?**





WAGNER, PITTSBURG



Honus Wagner

2019 BMW X3

- 3 Year Lease
- 20,000 Miles
- Purchase Price to buy after lease \$28,000
- Year of Year used car prices – Up 27%
- CarGurus Used Car Price Trends



The US Dollar & Recent Spending Bills

CARES Act
\$2.2 Trillion

American
Rescue Plan
\$1.9 Trillion

Build Back
Better Act
\$1.75 Trillion

Inflation

- 13 Year High for inflation overall
- Currently 5.4% Overall
- Food Costs: 4.6%
- Energy Costs: 24.8%
- New Cars Prices: 24.4%
- Cost of Home sales Over 20%



SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

Risks to Portfolios

- Inflation / Interest Rates
- Potential zero to negative return in Bonds for years to come
- Need to get more creative with Fixed Income / Alternative Asset Classes
- Different sectors have historically done with in rising interest rate environment than the previous few years
- Non active portfolios have become very aggressive over the past few years
- Check risk tolerance

Preservation & Growth of Wealth

Making the most of our current tax laws

- Tax Deferred Growth
- Tax Free Growth
- Roth Conversions in lower income years
- Roth 401(k) Contributions
- Harvesting Losses whenever Possible
- Donating Appreciated Assets
- Monitor Capital Gains for Taxes and Medicare

Medicare Part B/D Premiums for 2022

Base Rate \$148/PP

Base Rate: Your Plan Premium

File Joint tax return

MAGI Threshold (2019)	Part B Premium Adjustment	Part D Premium Adjustment
\$0 to \$176,000	\$-	\$-
\$176,000 to \$222,000	\$59	\$12
\$222,000 to \$276,000	\$149	\$32
\$276,000 to \$330,000	\$238	\$51
\$330,000 to \$750,000	\$327	\$71
\$750,000 and above.	\$356	\$77

File Individual tax return

MAGI Threshold (2019)	Part B Premium Adjustment	Part D Premium Adjustment
\$0 to \$88,000	\$-	\$-
\$88,000 to \$111,000	\$59	\$12
\$111,000 to \$138,000	\$149	\$32
\$138,000 to \$165,000	\$238	\$51
\$165,000 to \$500,000	\$327	\$71
\$500,000 and above.	\$356	\$77

Qualified Charitable Distributions (QCDs)

- Must currently be taking Required Minimum Distributions (RMDs)
 - Traditional IRAs or Inherited IRAs
- Donations send directly to charity from IRA
- Most Efficient Way to give (100% Deduction)
- Completely removes income from tax return
- Does not add to Modified Adjusted Gross Income

Polling Question 2:
How appropriate is
the level of risk in your
investment portfolio?



3.8% Net Investment Tax

- If MAGI is over: \$200,000 Single, \$250,000 Married Filing Joint
- 3.8% tax on investment income (Capital Gains, Interest, Dividends, Rental Income)

3.8% Net Investment Tax on Pass- through Income

- The latest reconciliation to include income derived from “active” pass-through income.
- MAGI over \$400,000 single.
\$500,000 married filing joint

3.8% Net Investment Tax on Pass- through Income

Example 1:

- S-corp passthrough Net Profit = \$300K
- S-corp Owner's W2 wages = \$100K
- $(\$300K + \$100K) \$400K$, so none of S-corp profits are subject to surtax

3.8% Net Investment Tax on Pass- through Income

Example 2:

- S-corp passthrough Net Profit = \$400K
- S-corp Owner's W2 wages = \$100K
- (\$400K + \$100K) \$500K, so all \$400K of S-corp profits are subject to 3.8% surtax ($\$400K * 3.8\% = \$15,200$)

Pass-Through Entity (PTE) Tax

- \$10,000 SALT cap limit (TCJA 2017)
- Property Tax, Excise Tax, State Income Tax

Pass-Through Entity (PTE) Tax

- November 2020 IRS Guidance that SALT imposed at entity level is fully deductible
- 19 States that now have enacted some version of a PTE Tax
- **Takeaway** – Pass-through Owners may benefit from paying the tax at the entity level

Polling Question 3: To what degree will you be impacted by the updated Net Investment Tax if it becomes legislation?





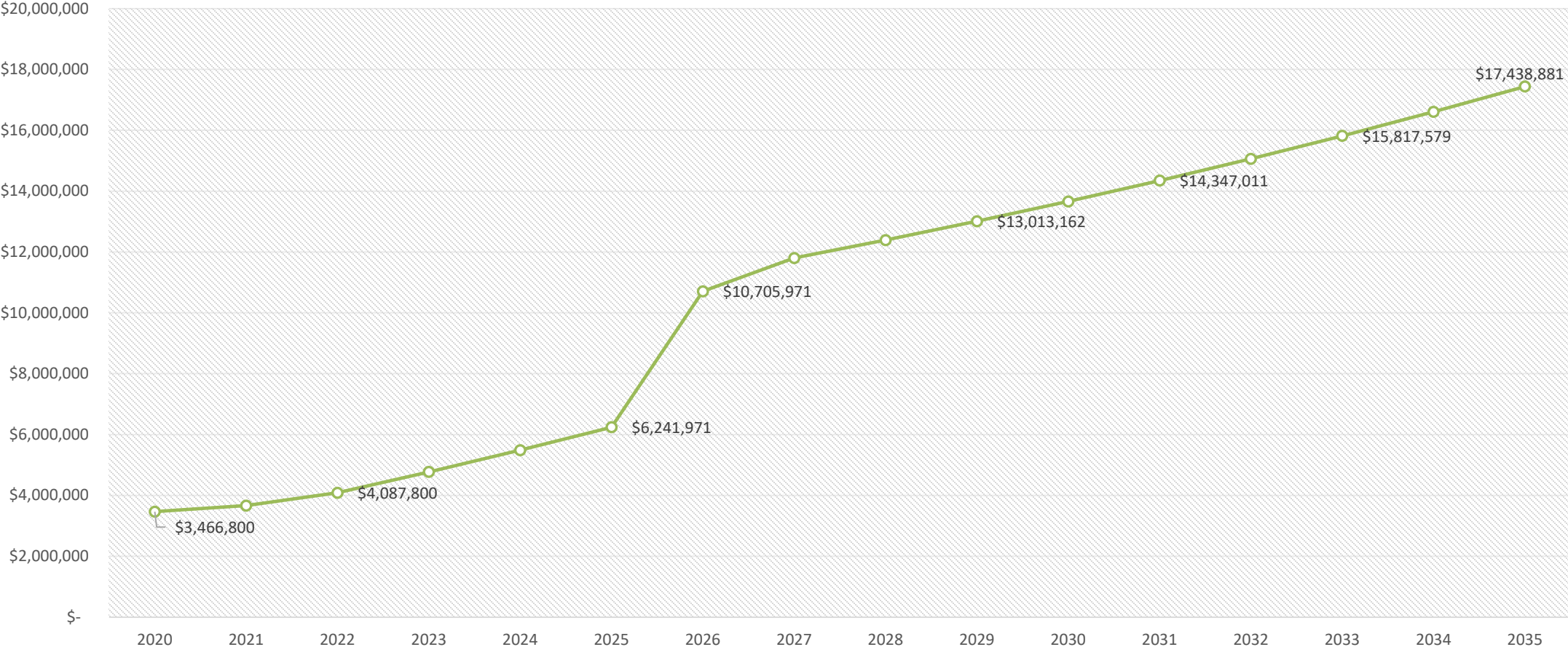
AAFCPAs

Estate Tax Update

Federal Estate & Gift Tax



Federal & Massachusetts Estate Tax Currently \$25,000,000 Estate



**To Minimize Estate
Taxes Assets Should
be Moved out of
Your Estate During
Your Lifetime**

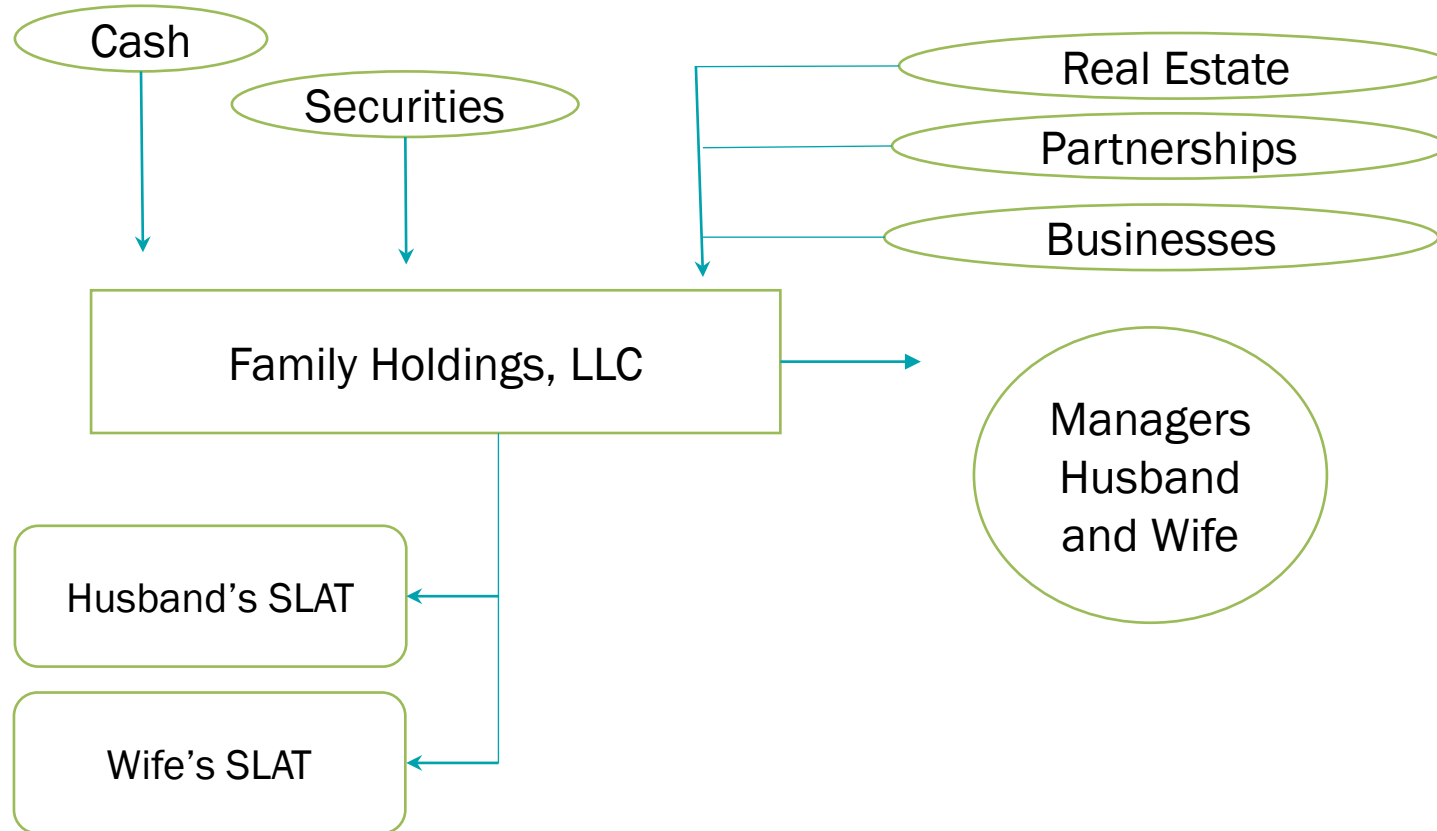


What Can You Do?

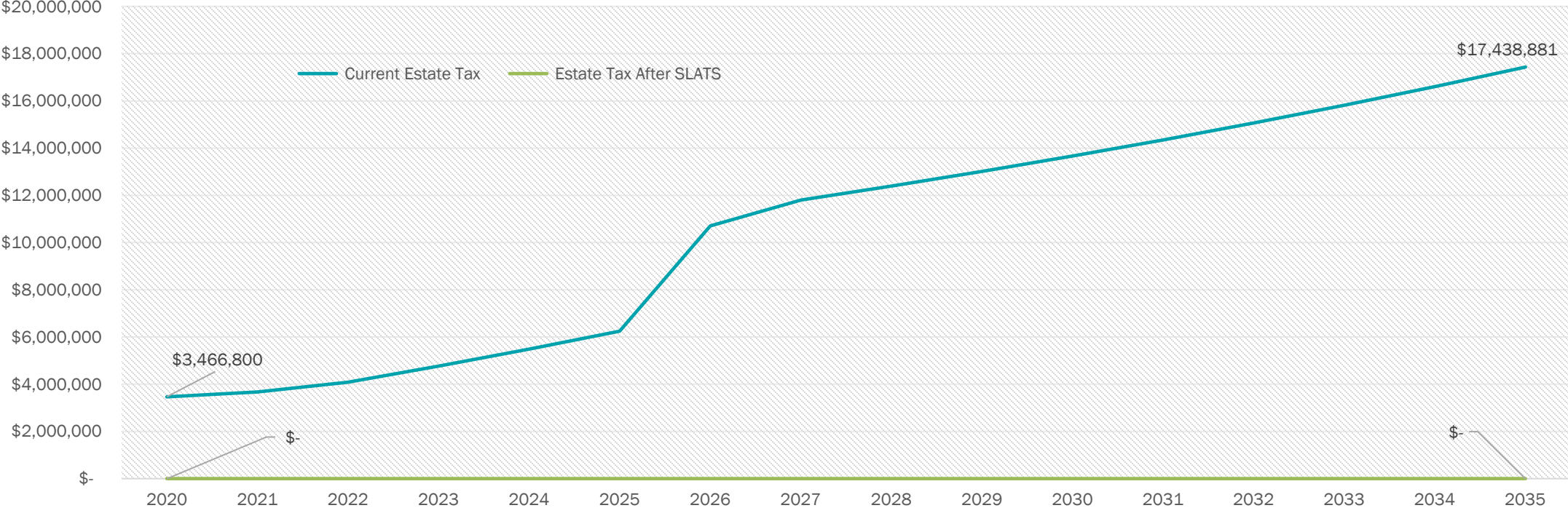
- For married couples with assets over \$5 million, but under the current \$11.7 million exemption, one option is to make a gift of all the assets to a trust for the benefit of the second spouse.
- This will use up the first spouse's exemption but preserves the second spouse's exemption for future use, should the tax law change.



Spousal Lifetime Access Trust (SLAT)



Federal & Massachusetts Estate Tax After Slats



Biden Proposed Changes




A large orange circle is positioned on the left side of the slide, partially overlapping the white background.

Estate Tax Exemption

Currently: \$11,700,000

December 31, 2025: \$6,000,000

Proposed December 31, 2021: \$6,000,000

A decorative graphic consisting of four teal-colored curved dashes arranged in a curved path in the bottom right corner of the slide.

Basis Step-up Staying





Gifts, GRATS & Grantor Trusts

- Grantor Trusts created after the enactment of the legislation will be included in your estate
- Gifts made to grandfathered trusts after enactment will be included in your estate

Estate Planning Strategies Today

Spousal Lifetime Access Trusts
(SLATS)

Gifts of closely held business and
real estate


Loans to Family Members

Intentionally Defective Grantor
Trusts

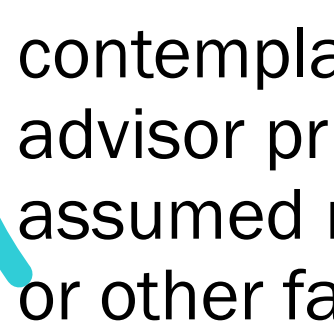
Questions



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