

Midyear Tax Planning Tips for Individuals and Businesses

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If you're waiting until around the 15th of March – or worse yet, April – to save on your taxes, you're waiting too long. Sure, you can use certain approaches to trim your taxes when completing your annual tax returns, but the bigger savings come from what you do in the months and years prior to filing.



And with recent changes in the balance of power in Washington, D.C., a little mid-year tax planning is sure to help you avoid some nasty surprises in the Aprils to come. President Biden has released a plan that, if enacted, will result in higher tax rates for certain individual and corporate taxpayers. Only time will tell what will ultimately happen. We're keeping an eye out for any new tax legislation and will alert you when changes occur. But now is a good time to review your finances, so that if any changes to tax laws do take effect, you'll be better prepared to act.

In this singlette, we cover several tax-planning approaches you'll want to consider now – midway in the year – whether you're an individual taxpayer or a small-business owner.

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SWC Client Reminder: *It's time to schedule your complimentary 2021 Mid-year Tax Planning and Financial Strategy Meeting. Visit www.SteesWalker.com and click on the Contact link at the top of page, followed by the "Schedule Your Appointment Online" button on the next page.*

Tax-Planning Strategies for Individual Taxpayers

First, consider some tax-planning approaches for yourself as an individual taxpayer. From revisiting your tax withholding or estimated tax payments and taking advantage of lower tax rates on investment income, to timing your investment gains and losses and taking advantage of expanded credits for kids, there are several strategies you may want to consider.

First up, let's have another look at your tax withholding and estimated tax payments.

Revisit Your Tax Withholding or Estimated Tax Payments

Nobody likes to be surprised with a larger than expected tax bill or a smaller than anticipated refund when filing their tax returns, so be sure you're paying enough in taxes throughout the year.

If you have taxes withheld from your paychecks, you can use the IRS's "[Tax Withholding Estimator](#)" to see whether a sufficient amount is being withheld. You'll need your most recent pay stubs (*and your spouse's pay stubs if married filing a joint return*), details of other sources of income, and a copy of your most recent tax return.

If you make estimated tax payments (*self-employed, for example*), the calculations are more complex. You need to compare business income, expenses, and estimated tax payments from the same period this year and last, then look at your tax refund or what you owed in taxes last time you filed to see if you're on track.

Pro Tip: If you're self-employed, work with your tax planning professional to ensure your estimated tax payments are correct.

Next, let's take a look at opportunities related to lower tax rates on investment income.

Take Advantage of Lower Tax Rates on Investment Income

Income from investments held for longer than one year (also known as *long-term capital gains*) is generally taxed at a significantly lower rate than short-term capital gains and earned income. For 2021, long-term capital gain rates are:

- Zero (0) percent if your taxable income doesn't exceed \$80,800 (*for joint filers*), \$54,100 (*for heads of household*), or \$40,400 (*for individuals or married individuals filing separate*)
- 15 percent if your taxable income is \$80,801 to \$500,600 (*for joint filers*), \$54,100 to

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\$473,750 (for heads of household), \$40,400 to \$250,800 (for married filing separate), or \$40,400 to \$445,850 (for individuals)

- 20 percent if your taxable income exceeds \$501,600 (for joint filers), \$473,750 (for heads of household), \$250,800 (for married filing separate), or \$445,850 (for other individuals)

Higher-income individuals may be subject to an additional 3.8 percent net investment income tax. If your taxable income is near these thresholds, here are a few ways to reduce your reported income to lower your capital gains rate:

- Increase your deductible IRA contributions
- Defer any bonuses to next year
- Contribute to employer retirement plans
- Hold off on invoicing clients until next year (*if you own a business and use the cash method of accounting*)
- Accelerate some deductible business expenses this year

Be careful with the last two approaches, because they run the risk of increasing your reported income for next year, thus pushing you into a higher tax bracket next year.

Pro Tip: If your income is still too high to get a lower rate, consider gifting investments to children, grandchildren, or other loved ones. But beware of the possible tax consequences, such as the so-called Kiddie Tax.

Time Your Investment Gains and Losses

In 2021, the highest tax rate for long-term capital gains is 23.8 percent (20 percent + 3.8 percent for high-income individuals). Under President Biden's proposed tax plan, this rate would increase to 43.4 percent (39.6 percent + 3.8 percent) for taxpayers earning more than \$1 million.

Until we know exactly where the capital gain rates will fall in 2022, the best approach is to remain vigilant and prepared. Here are some timing strategies to consider:

- If rates increase, consider selling winning investments before year-end and holding losers until January 2022.
- Be mindful of your holding period. Tax rates are much higher for short-term capital gains than long-term capital gains. While the maximum tax rate for long-term capital gains is 23.8 percent, it's 40.8 percent for short-term capital gains.
- Sell some loser securities (*those worth less than you paid for them*) before year-end to offset any capital gains (*both long- and short-term*) with capital losses.
- If capital losses for this year exceed capital gains, you'll have a net capital loss for 2021, which you can use to shelter up to \$3,000 of this year's higher-taxed ordinary income

from salaries, bonuses, self-employment, and so on. Any excess net capital loss carries forward to 2022.

- Sell enough loser securities to create a net capital loss that exceeds what you can use this year. You can carry forward the excess capital loss to 2022 and beyond and use it to shelter both short- and long-term gains, which may be taxed at higher rates in 2022.

Next, let's cover how you can take advantage of the changes to the Child Tax Credit.

Take Advantage of Expanded Credits for Kids

The American Rescue Plan Act of 2021 (ARPA) has several provisions that could help to ease your tax burden, including the expansion of two familiar credits for caregivers of children and dependents.

- **Child Tax Credit:** ARPA increases the Child Tax Credit for 2021 from a maximum \$2,000 per eligible child to \$3,600 for children under 6 and \$3,000 for those between ages 6 and 17.

These credits begin to phase out when adjusted gross income (AGI) exceeds:

- \$150,000 for married filing jointly
- \$112,500 for head of household
- \$75,000 for single or married filing separate

The credit phases out at \$50 for every \$1,000 that the AGI exceeds the threshold.

The IRS will issue advance payments on the Child Tax Credit (half the credit) to eligible taxpayers starting in July 2021. You can claim the other half of the credit on your 2021 return.

- **Child and Dependent Care Credit:** ARPA also expanded the Child and Dependent Care Credit for 2021, increasing the credit from \$3,000 to \$8,000 for taxpayers with one qualifying child or dependent, and double that for two or more qualifying individuals.

As with the *Child Tax Credit*, the *Child and Dependent Care Credit* phases out at different AGI thresholds:

- For families earning between \$125,000 and \$185,000 AGI, the credit is reduced 1 percent for each \$2,000 above \$125,000.
- Those earning between \$185,001 and \$400,000 AGI receive a flat credit of 20 percent.
- For those earning more than \$400,000 AGI, the credit is reduced 1 percent for each \$2,000 above \$400,000 and is completely phased out when AGI exceeds \$440,000.

Make the Most of Deductions

If you have significant personal expenses, itemizing your deductions may be best, but the standard deduction is best for most taxpayers in 2021:

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- \$25,100 for married filing jointly
- \$18,800 for head of household
- \$12,550 for single or married filing separate

The Tax Cut and Jobs Act (TCJA) suspended or limited many itemized deductions, and we don't anticipate that changing any time soon. The most discussed limitation currently is the cap on the deductions for State and Local Taxes (SALT), which is currently \$10,000 (\$5,000 if married filing separately).

To take advantage of SALT and other eligible deductions, consider the following:

- If you itemize and are near the standard deduction threshold, consider bunching state and local taxes into alternating years by paying two years' worth of taxes in a single calendar year, while accounting for the \$10,000 cap.
- Consider bunching charitable contributions and donating to donor-advised funds, which enable you to claim the charitable tax deduction in the year you make your donation and schedule grants over the next two years or other multiyear periods.
- If you itemize and are just over the standard deduction threshold, consider taking advantage of the COVID-19 legislation that temporarily increased the limit on cash contributions to public charities and certain private foundations from 60% to 100% percent of adjusted gross income.
- If you don't itemize, you can claim a deduction for charitable cash contributions up to \$300 (\$600 for those married filing jointly).

Tax-Planning for Small Businesses

If you own a business, consider the following to minimize your tax bill for 2021.

Employee Retention Credit

The Coronavirus Aid, Relief, and Economic Security (CARES) Act created an Employee Retention Credit (ERC) that provides a payroll tax credit for eligible business owners, to encourage them to retain their employees during the pandemic.

Excess Business Losses

To ease the burden on small business owners, the CARES Act temporarily removed the limit on Excess Business Losses (EBLs) that the TCJA implemented for 2018 through 2020. However, beginning in 2021, taxpayers may once again see a cap on business loss deductions from sole proprietorships and pass-through entities, such as partnerships and S corporations.

The excess loss is converted to a net operating loss (NOL), which is carried forward, subject

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to limits. Keep this limit in mind when you're projecting your 2021 income for estimated tax payments as well as for determining how any future tax increases may affect you.

Section 179 Expense and Bonus Depreciation

If your business needs to purchase machinery or equipment, you may be able to expense the entire cost in 2021. Under Section 179, taxpayers can elect to expense up to \$1,050,000 of qualified purchases, subject to taxable income limitations. Alternatively, your business can take advantage of 100 percent first-year bonus depreciation.

Many factors can affect the decision of when to acquire assets, including current and future tax rates. With the possibility of higher rates in 2022, you may want to postpone acquisitions to next year.

We're Here to Help You Make Wise Financial Decisions

We hope you found something in this singlette that puts more money in your pocket. If anything piqued your interest, and you need additional information and guidance, please let us know before your 2021 Mid-year Meeting. One of our objectives is to help you make savvy tax-savings moves now that'll increase your current cash flow and save you money later. If you haven't scheduled your *2021 Mid-Year Tax and Financial Strategy Meeting* with our office, [click here](#) to choose a date and time that's most convenient for you.

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Keep in touch.

16875 W. Bernardo Drive, Suite. 290
San Diego, CA 92127
p: (858) 487-4580 | f: (858) 487-8033
w: www.SteesWalker.com
b: blog.SteesWalker.com

Laura A. Stees, CPA

Partner & Business Strategist
Laura@steeswalker.com

Marni L. Walker, CPA

Partner
Marni@steeswalker.com