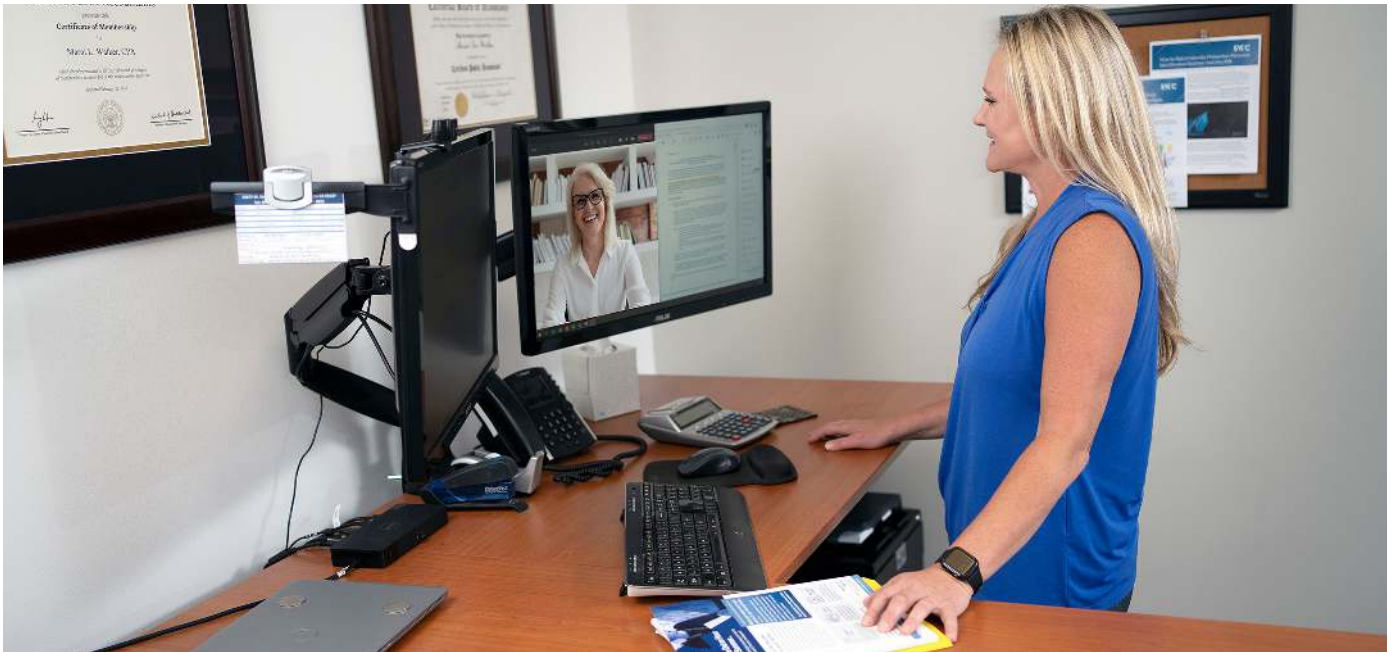


# Year-End Tax-planning Tips for 2021

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**W**hen it comes to your personal finances, what you do this year will make a big difference in how much state and federal tax you pay next year (on April 15). It could also have an impact on your net worth for decades into the future.

That's especially true this year when so many factors are likely to have impacted your taxes and finances – the lingering global pandemic, new tax laws, business slowdowns and shutdowns, supply chain disruptions, inflation, major shifts in government policies, and more. In this environment of relative disorder and uncertainty, having a well-thought-out tax plan in place empowers you to successfully meet the challenges, capitalize on new opportunities, and move forward with confidence.



Here at SWC, we encourage you to schedule a year-end tax and financial strategy session with your CPA. And if you are a client of ours, you already know that we can help you reassess your taxes and finances, adjust your plan to optimize outcomes, and take any year-end steps that can save you money and protect and grow your net worth.

In the meantime, whether you're a client of ours or you work with another firm, here's a look at some issues to consider as you approach year-end 2021:

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## Recent Changes Impacting Taxes

The American Rescue Plan Act (ARPA), enacted in March 2021, introduced several new tax provisions to help individuals (and businesses) deal with the COVID-19 pandemic and the resulting economic disruption. Other tax provisions passed late in December 2020 may also impact your taxes this filing season. In the following sections, we highlight a few of the changes that you should be aware of, starting with EIPs.

### *Economic impact payments (EIPs)*

ARPA created a new round of EIPs that were sent to qualifying individuals. As with last year's stimulus payments, the EIPs were set up as advance payments on a future tax credit; that is, you received the money early in 2021 for a tax credit you'll claim when you file your taxes in 2022. If you qualified for a second-round EIP, you should have received your payment already. However, if the IRS owes you more, you can claim it on the 2021 income tax return that you'll file by April 15, 2022.

Note that if you received an EIP, you should have or will receive a letter from the IRS. If you have the letter, please bring it to your tax and financial planning session to help us determine any potential adjustment.

### *Child tax credit*

If you have children, you may already be aware of the child tax credit, but ARPA introduced several important changes, including these:

- The credit amount has increased for certain taxpayers
- The credit is *fully refundable*, meaning you will receive a refund of the credit even if you don't owe the IRS
- Partial credit could be distributed early in the form of monthly payments to qualified taxpayers who chose this option (*the IRS began paying half of the credit in advance monthly payments beginning in July of 2021 -- some taxpayers chose to opt out of the advance payments, and some may have complexities that require additional analysis*)
- The credit applies to children aged 17 and younger
- During your tax and financial planning session, we'll address any questions and concerns you have and review your finances to ensure that you receive the full benefit to which you are entitled.

### *Charitable contribution deductions*

You can deduct up to \$300 (\$600 for joint filers) for any cash contributions you've made to qualified charitable organizations over the course of 2021. You don't need to itemize your deductions to claim this deduction, but taxpayers who itemize aren't subject to the \$300 (\$600 for joint filers) cap.

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Also, taxpayers can claim a charitable deduction up to 100 percent of their adjusted gross income (AGI) in 2021 (up from 60 percent).

These changes in charitable contribution deductions open the door to additional tax-saving approaches, which we can discuss during your 2021 year-end tax planning session.

#### Required minimum distributions (RMDs)

Required minimum distributions are the minimum amounts you must withdraw annually from your retirement account(s) starting at a certain age. For 2021, you must take a distribution if you reach the age of 72 by the end of the year (or age 70½ if you reached that age before Jan. 1, 2020).

Knowing the tax consequences of required minimum distributions is important, especially if this is the first year you're required to take minimum distributions. The penalty for noncompliance is stiff – 50 percent. For example, if your RMD is \$10,000 and you took no distribution from your retirement account, your penalty would be \$5,000!

If you're closing in on that 70-year mark, it's time you start planning for RMDs. We can help you calculate your RMD and make sure you take it on time to avoid any penalties.

#### ***Unemployment compensation***

In 2020, recipients of unemployment compensation were allowed to exclude up to \$10,200 of that compensation from their income. This exclusion expired at the end of 2020. During your planning session, we can address any impact this change is likely to have on your finances.

#### ***Tax Implications of Working Remotely (Telework)***

The pandemic has produced significant changes in how many of us work, and more of us are now working from home (i.e., *teleworking*). These remote working arrangements could have tax implications. For example, you may qualify for the home office deduction and be able to deduct work-related expenses not reimbursed by your employer. In addition, if you work for an employer in a state other than the one you live in, that could impact your state income tax obligations.

During your year-end tax planning session, we'll evaluate the tax implications of any telework arrangement you have to ensure that you're paying the taxes you owe and taking all the deductions to which you are entitled.

#### ***Virtual Currency/Cryptocurrency***

Transactions in virtual currency, such as Bitcoin, Ethereum, and non-fungible tokens (NFTs), are becoming more common. NFTs are unique and can't be replaced with something else.

Using virtual currencies to pay for goods or services, or holding these currencies as an investment, generally feature tax implications.

We will help you understand and evaluate their impact on your taxes and finances.

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### ***Additional Tax and Retirement Planning Considerations***

Taxes are a double whammy. You take a hit when you pay the taxes, and you lose the opportunity to invest that money to grow your wealth. In other words, the taxes you pay now can significantly impact your quality of life later, in retirement for example.

We take a comprehensive approach to taxes and finances to help you achieve optimal financial outcomes. Our objective is to help you maximize the use of all your resources and your situation to minimize your tax burden and then use the money you save on taxes in ways that most effectively protect and grow your net worth.

During your yearend tax planning session, we'll also consider:

- Any major life changes such as marriage or divorce, birth, or death in the family; job or employment changes; starting, selling, or closing a business; and any significant expenditures such as real estate purchases and college tuition.
- Tax benefits related to using capital losses to offset realized gains and move any gains to the lowest tax brackets, if possible.
- Taking advantage of the annual exclusion for gifts (\$15,000 per donee, \$30,000 for married couples) to reduce potential future estate taxes.
- Contributing to Section 529 plans to save for education later while reducing your current tax bill now.
- Reviewing and updating (if necessary) insurance policies or beneficiary designations.
- Evaluating the potential tax benefits of converting traditional IRAs to Roth IRAs.
- Reviewing withholding and estimated tax payments to avoid any surprises at tax time.
- Assessing any liquidity needs.

### **Keeping Watch for Future Changes to Tax Legislation**

With potential tax changes looming (as Congress debates proposals in President Biden's "Build Back Better" agenda), there remains uncertainty in how these latest proposals will impact individual tax players. Provisions of the final bill being considered include:

- Increase to the state and local tax itemized deduction limitation from \$10,000 to \$80,000, retroactive to the beginning of 2021
- The creation of a new 5 percent tax on non-corporate taxpayers' income in excess of \$10,000,000 (or \$5,000,000 on taxpayers filing separately) and \$200,000 for estates and trusts for taxable years beginning after December 31, 2021
- Expanding the Net Investment Income Tax

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- Decrease the 75 percent and 100 percent gain exclusion from qualified small business stock
- Extend the American Rescue Plan Act's child tax credit provisions through 2022, including increased credit amounts and advanced payments
- Solar credits restored to 30 percent starting in 2022
- Expansion of new plug-in vehicle refundable credits of up to \$12,5000 for those with adjusted gross incomes not exceeding \$500,000 (or \$375,000 for head of household and over \$250,000 for single or married filing separate)
- Refundable used plug-in vehicle credits of up to \$4,000

As this legislation continues to evolve, and if it passes, we'll connect with you to discuss how the changes may impact your tax plan.

## Be Proactive

Your financial portrait is as unique as you are. With your input, we can craft a plan that's perfectly tailored to your current situation, objectives, and goals. We have many tools and methods at our disposal to help you reduce taxes and protect and grow your net worth.

Whether it's getting answers to your tax and financial strategy questions or working toward retirement and wanting to optimize your positions, we're here to help. If you haven't done so already, please contact our office today at (858) 487-4580 to schedule your year-end tax planning session, or visit our online [Schedule an Appointment Page](#) on the SWC website, where you can click the "Tax Projection" link to reserve a meeting time

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