BRSW CPA'S DECEMBER 2021 NEWSLETTER

Dear Clients and Friends,

With year-end fast approaching, it is time to consider moves that may help lower your tax bill for this year and next. This year's planning was challenging due to the uncertainty surrounding pending legislation that could, among other things, increase top rates on both ordinary income and capital gain starting next year. We waited to send out this newsletter in anticipation that we would have more information, but at this time, it appears no tax legislation will become law due to opposition in the Senate and the feared tax rate increases may not happen after all.

Whether or not tax increases become effective next year, the standard year-end approach of deferring income and accelerating deductions to minimize taxes will continue to produce the best results for all but the highest income taxpayers, as will the bunching of deductible expenses into this year or next to avoid restrictions and maximize deductions.

If something changes and tax increases do pass in early 2022, the highest income taxpayers may find that the opposite strategies produce better results: Pulling income into 2021 to be taxed at currently lower rates, and deferring deductible expenses until 2022, when they can be taken to offset what would be higher-taxed income. This will require careful evaluation of all relevant factors and as mentioned before, it is very possible that tax rates will remain the same in 2022. It takes 50 senators to agree and as of late December that number has not been reached.

We have compiled a list of actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all of them will apply to you, but you (or a family member) may benefit from many of them.

We appreciate the opportunity to be of service to you!

Sincerely,

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YEAR-END TAX PLANNING FOR INDIVIDUALS

Long Term Capital Gains

Long-term capital gain from sale of assets held over one year is taxed at 0%, 15% or 20%, depending on taxable income. Planning for the timing of sales to capture gains or losses to maximize the 0% or 15% brackets can save significant tax dollars over time. Taxpayers whose 2021 taxable income from long-term capital gains and other sources is below the zero-rate amount should try to avoid recognizing long-term capital losses before year end as they may receive no benefit from the loss.

Health Savings Account

The rising cost of health care coverage has caused many individuals and employers to switch from traditional health insurance coverage to high-deductible health plans (HDHPs). Individuals or employees who were covered by a HDHP plan at any time during 2021 may have a tax-sheltered savings opportunity. Depending on the health plan deductible and out-of-pocket limits, they may be able to make contributions to a health savings account (HSA) and receive an above-the-line deduction.

Roth IRA

Individuals considering whether to roll over or convert to a Roth IRA for 2021 should keep in mind that unlike the usual IRA rollover, a switch from traditional IRA or qualified plan to Roth IRA, as well as an In Plan Roth Rollover (IPPR) is not income-tax-free. Instead, it is subject to tax as if it were distributed from the traditional IRA or qualified plan and not recontributed to another IRA, but it generally is not subject to the 10% premature distribution tax.

Required Minimum Distribution

Required minimum distributions (RMDs) from an IRA or 401(k) plan (or other employer-sponsored retirement plan) have not been waived for 2021, as they were for 2020. If you were 72 or older in 2020 you must take an RMD during 2021. Those who turn 72 this year have until April 1 of 2022 to take their first RMD but may want to take it by the end of 2021 to avoid having to double up on RMDs next year.

Home Office Deduction

Independent contractors or self-employed individuals who work out of part of their home for business may be eligible to claim a home office deduction. Employees working from home during the COVID-19 pandemic cannot deduct expenses for using their home as an employee because miscellaneous itemized deductions on Schedule A are suspended through 2025.

Deductions

In 2021, taxpayers claiming the standard deduction will be able to take a deduction, up to $300 for single, head of household, and married filing separately, and $600 on a married filing joint return, for cash contributions to charity. This deduction is not available with respect to donations of property, such as clothes and household items. As a result, taxpayers who do not itemize their deductions will be able to deduct up to $300-$600 of charitable contributions.

Economic Impact Payment

IRS automatically made advance payments (Economic Impact Payments or EIPs) of the recovery rebate credit to most eligible individuals during 2021. EIPs will not be available after December 31, 2021. Individuals who should have automatically received an EIP, but have not yet, should check the IRS's "Get My Payment" tool (see below for website) to determine the status of their payment. Taxpayers that do not receive an EIP before December 31, 2021, will need to wait until filing their 2021 tax return to benefit from any recovery rebate credit. www.irs.gov/coronavirus/get-my-payment

Personal Identity Protection (PIN) Option

In January 2020, IRS expanded the Identity Protection (IP) PIN opt-in program to all taxpayers who can accurately verify their identities. The IP PIN can be obtained through IRS's "Get an IP PIN" tool in their website. PIN once generated is valid for one year.

Child Tax Credit (CTC)

In 2021, the child tax credit increased to $3,000 per child ($3,600 for children under 6 as of the close of the year), from $2,000. The increase amounts (the $1,000 or $1,600 amount) are phased out at modified AGI over $75,000 for singles, $112,500 for head-of-households, and $150,000 for joint filers and surviving spouses. If you are not eligible to claim an increased CTC in 2021, you can still claim the regular $2,000 CTC, subject to the existing phaseout rules. In response to the increase, the IRS has been making temporary advance payments to taxpayers totaling 50% of the taxpayer's CTC on a monthly basis since July. <u>If you receive advance CTC payments that are in excess of the CTC actually allowable to you for 2021, you'll have to repay the excess amounts (by increasing tax liability on your 2021 returns).</u> However, if you opted out of the monthly payments, you will receive the full credit on your 2021 tax return limited to the phase out rules.

IRS Documents to be mailed to taxpayers (Give to us to prepare your tax return!)

- Letter 6419 - 2021 Total Advance Child Tax Credit Payments
- Letter 6475 - Your 2021 Economic Impact Payment
- Form 1095-A - Health Insurance Marketplace Statement

ESTATE & RETIREMENT PLANNING

Gift Tax

The annual gift tax exclusion for 2021 is $15,000 per person. This exclusion will increase to $16,000 in 2022.

Trust and Estate Distributions

Complex trust and estate distributions made within the first 65 days of 2022 may electively be treated as paid and deductible in 2021. The election is generally made on the return for the election year. Thus, fiduciaries do not need to make payments in 2021 for the payments to be deductible in that year. They can wait until 2022, when the 2021 tax picture will be clearer, to decide whether the payments may be more profitably imputed back to 2021 via the 65-day rule or treated as 2022 payments.

Non-Spouse Beneficiaries

Distributions to a non-spouse individual beneficiary must be made within 10 years of the account owner's death. There are some exceptions to this rule, the main one being minor children. Only when the child becomes an adult does the 10-year requirement become effective.

YEAR-END TAX PLANNING FOR BUSINESSES

Reminder: Gift cards are taxable to employees and must be included in gross wages on Form W-2.

1099 Form

Please note that for 2021, employers will use Form 1099-NEC to report nonemployee compensation. The due date for filing Form 1099 that includes nonemployee compensation (NEC) is January 31.

Families First Act Coronavirus Response Act (the "Act")

On March 14, 2020, the House passed the Act to provide emergency supplemental appropriations and support Americans during the COVID-19 pandemic. Parts of the Act provide for emergency family and medical leave benefits, emergency paid sick leave benefits, and employer and self-employed tax credits and exclusion from employer FICA tax with respect to the payment of those benefits. The Act provides tax credits to employers to cover wages paid to employees while they are taking time off under the bill's sick leave and family leave programs. If your business failed to apply for this credit during 2020 or 2021, amended payroll returns can be filed to claim refunds as the IRS will cover those sick pay hours. Please let us know if you need help analyzing this tax issue.

20% Business Income Deduction

Pass-through businesses, e.g., sole proprietorships, partnerships, limited liability companies and S corporations, may be able to take a deduction of up to 20% of their business income from a qualified trade or business (qualified business income deduction). The deduction cannot exceed 20% of the excess of the taxpayer's taxable income over his or her net capital gain for the tax year.

Work from home Employees

Due to COVID-19, many employers asked their employees to work from home. This could have some withholding tax implications when an employee lives in a different state from the company or works in more than one state. Many states have issued guidance as to what creates nexus for an employer. This may force a business to file additional state income tax returns.

Remote Worker City Refund Claims

If your employer is withholding Ohio city income taxes, but you are working remotely outside that city's municipal limits, you may now be eligible to submit an amended city return to claim a refund on wages paid to you in 2021 while you were working from home, provided your home is outside the city limits.

Build Back Better Act – Still Pending

In November, House of Representatives passed H.R. 5376, the Build Back Better Act, by a majority vote. Included in the bill is a variety of budget and spending provisions that has been subject of discussion for several months. The bill is divided into nontax provisions and tax provisions. Until 50 Senators are willing to support this bill, it remains a theoretical policy wish list. If circumstances change and the legislation appears likely to pass, we will analyze and report on the tax provisions at that time.