

Our offices will be  
CLOSED  
December 23 & 24

# FOCUS ON FINANCE

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## 2021 Top 10 Year-end Tax Planning

December 2021

The Key Wealth Institute recently released its Top 10 Year-end Planning Ideas for 2021. Unless legislation is passed before the end of 2021 changing the tax code, following these ideas will help you maximize your tax savings. Remember the Tax Cuts and Jobs Act of 2017 is the current governing law. Below is a summary of the top ten ideas.

**1. Tax Bracket Management-Accelerate income and defer deductions:** With the potential for an increase in tax rates, those with incomes above \$400,000 might want to consider accelerating income into 2021. Roth conversion, harvesting gains and deferring loss harvesting, exercising stock options, accelerating bonuses, accelerating the installment sale gain, or moving up the closing date of a sale are just a few strategies to consider. Defer deductions that can be used to offset future income that could be taxed at higher rates.

**2. Itemized Deduction Timing-Accelerating or Deferring Deductions:** More taxpayers are using the Standard Deduction. Therefore, to maximize itemized deductions in certain years, consider the tactic of "bunching" expenses into this year or next year to help get around deduction restrictions imposed by the Tax Cuts & Jobs Act. This applies to deductions such as charitable state, and local taxes, mortgage interest and miscellaneous itemized deductions.

**3. Gain/loss Harvesting-Make the most of the reduced capital gain tax rates:** Long-term capital gains are taxed at a rate of 0%, 15% or 20%. You may consider accelerating sales of capital assets into 2021. For those capital assets with gains, they can be sold now and repurchased with a higher basis so that future sales will have less capital gain that could be taxed at higher rates. Just avoid the wash-sale rules which disallow the loss if the same shares are acquired within the 61-day period beginning 30 days before and ending 30 days after the sale.

**4. Roth Conversions:** With the potential for future higher tax rates, more individuals are considering a Roth Conversion and paying the tax on the conversion now at the lower rates. As you get closer to year end, determining your 2021 marginal tax bracket and projected investment income can be done with more certainty. If you are trying to convert your Traditional IRA to a Roth IRA to fill up a tax bracket, start those conversions now. Roth conversions can reduce future Required Minimum Distributions (RMD) and create a potential tax-free inheritance.

**5. Charitable Planning:** This year presents opportunities with maximizing the deductibility of charitable contributions. Donors can deduct cash donations to public charities up to 100% of Adjusted Gross Income (AGI) for 2021. The limit will revert to 60% of AGI after 2021. With the potential for increased capital gains tax rates, consider gifting appreciated assets to charity to avoid having to recognize gain. Also consider the Charitable IRA Rollover which allows an individual 70 ½ or older to make a Qualified Charitable Distribution (QCD) from their IRA directly to a charity. This distribution does not count as income and can help satisfy your RMD for that year.

**6. Review Your Estate Plan:** With the federal estate and gift exemption amount doubled now to almost \$11.7 million per person, those with taxable estates should make use of the increased exemptions with the use of lifetime gifts. Remember, the estate tax exemption reverts to the old levels at the end of 2025. It is a "use-it-or-lose-it" opportunity.

**7. Low Interest Rate Environment:** With interest rates still low and the prospect for higher rates in the future, the benefits of some estate planning strategies are enhanced. For those who expect a taxable estate, current conditions favor estate-freeze strategies like a Charitable Lead Annuity Trust (CLATs) to benefit charity and provide for noncharitable beneficiaries in the future, with the added benefit of a charitable income tax deduction.

**8. Review Your Portfolio:** With the potential for increase in the long-term capital gains rate, you may need to consider what this means for a concentrated stock position and how this can impact your diversification strategy. Reviewing portfolios for low basis stock and consider implementing a capital gain realization strategy. If your portfolio consists of investments that currently pay qualified dividends currently taxed at preferred lower rates, you may need to consider how this impacts your portfolio.

**9. Maximize Tax-Advantaged Savings Vehicles:** With the potential for future tax rate increases, maximizing tax-advantaged vehicles may be more important. Reduce taxable income by increasing pretax salary deferrals to employer-sponsored retirement plans (401k, 403b, 457 and SEP-IRA). Don't forget to consider contributions to IRAs for nonworking spouses. Also, maximize savings using tax-favored health plans such as Health Savings Accounts (HSAs).

**10. Review Beneficiary Designations considering the SECURE Act:** With IRA planning the Setting Community Up for Retirement Act (SECURE Act) of 2019 eliminated the "stretch IRA" which previously allowed IRA beneficiaries to draw down the remaining funds over their life expectancy. Inherited IRAs must now be distributed within 10 years of the original owner's death. Review your beneficiary designations to see how the SECURE Act impacts the future distributions to those who inherit your retirement accounts. There are ways to simulate a stretch IRA using lifetime income strategies such as naming a Charitable Remainder Trust (CRT) or a Charitable Gift Annuity (CGA) as beneficiary of the account or using the RMD to purchase life insurance that will provide a tax-free benefit to heirs.

With the end of 2021 fast approaching, be sure to consult with competent tax, legal and financial professionals before making major tax planning changes.

**Recommended Reading:** The Richest Man in Babylon  
By George Clason

**Quote of the Month:** "I never lose, I either win or learn."  
~ Nelson Mandela

# The Wright Team



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# The Wright Word Search

As you look for the hidden words, remember that they can be horizontal, vertical, diagonal, frontward or backward!

**PUZZLE ENTRY DEADLINE:**  
**Friday, December 31, 2021**

Name: \_\_\_\_\_

Address: \_\_\_\_\_

## Word List

ATVITIYN \_\_\_\_\_

ATDIONTRI \_\_\_\_\_

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ENTSRPES \_\_\_\_\_

Rearrange the letters in the word list to find the words needed to complete the word search  
**HINT: All words are CHRISTMAS RELATED.** Circle the unscrambled words in the WRIGHT Word Search. Send us your completed puzzle (via mail, fax or email) and be entered into a drawing for a \$25.00 Gift Card!

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**BONUS:** For an extra chance to win an **ADDITIONAL \$25 Gift Card** count how many times the word **WRIGHT** is found in this **ENTIRE** publication and enter it **HERE> \_\_\_\_**. Good Luck!

CONGRATULATIONS to **MARLENE RUBY-SUAREZ** for winning the November 2021 WRIGHT WORD SEARCH, and to **SHERRY SZARKA** for getting the WRIGHT's count right (13)!