2021 Year-End Planning Considerations

With year-end quickly approaching, now is the time to check in with your team of advisors to ensure you are addressing your financial and tax planning priorities for the 2021 tax year. This year the Consolidated Appropriations Act temporarily extended certain provisions from the SECURE Act and the CARES Act, which provided both long-term and temporary relief. Outlined below are some year-end planning strategies and actions to consider.

Retirement Planning		
Topic	**Explanation**	**Action**
No RMD Holiday for 2021	The CARES Act waived all RMDs for 2020, including RMDs payable from Inherited IRAs and taxpayers attaining RMD age in 2020. This no longer applies in 2021.	RMDs must be taken by any individual who is age 72 or older as of December 31, 2021. If you turned age 72 during 2021, you may delay your first RMD until April 1, 2022. Your second RMD must be taken by December 31, 2022.
Repay Distributions or Stretch Tax Payments	The CARES Act provides the ability to pay tax on coronavirus-related distributions ratably over a three-year period. You may also repay these distributions to an eligible retirement plan within three years.	Design repayment strategy and coordinate with your accountant and investment managers to ensure payments are completed within the three-year window.
Roth Conversions	A Roth IRA conversion allows individuals to convert pre-tax retirement plans, such as a Traditional IRA or a pre-tax 401(k), to a Roth IRA. Conversions are taxed on a calendar year basis. When converting IRAs, the taxable amount of the conversion is determined by aggregating the sum of all of your Traditional, SEP and SIMPLE IRAs. This means that any after-tax contributions are prorated in the same ratio as the ratio of overall after-tax contributions to the value of all IRAs. Qualified distributions from a Roth IRA are tax-free.	If you believe taxes will be higher in the future, it may be a good time to convert pre-tax funds to a Roth IRA. Speak with your tax advisor to determine if a Roth conversion fits into your overall planning.

Roth Charity Offset

The Consolidated Appropriations Act temporarily extended the CARES Act provision, which increased the charitable contribution itemized deduction limit to 100% of AGI for tax year 2021 for cash contributions to a public charity. Consider using this once-in-a-lifetime opportunity to execute a Roth conversion of an amount up to the cash contribution to your favorite public charity. This strategy would offset federal income tax on the Roth conversion and may address both philanthropic and retirement goals.[1]

Retirement Planning continues on next page.

[1] Not all states allow for a charitable contribution deduction, so state income taxes may apply.
Taxpayers must be able to itemize on their federal income tax return in order to take a deduction.

Retirement Planning (continued)		
Topic	**Explanation**	**Action**
New Required Minimum Distribution (RMD) Tables in 2022	New RMD tables go into effect on January 1, 2022. The Required Beginning Date (RBD) for IRA RMDs is now April 1 following the year an individual turns 72. For employer retirement plans such as 401(k)s, the RBD is now April 1 following the later of [2]: • Age 72; or • Retirement	If you are turning age 72 in 2022 and married to a spouse who is 10 years younger or more, consider designating them as a 100% primary beneficiary of your IRAs and retirement accounts by December 31, 2021. This will allow you to take advantage of the Joint and Survivor Life Expectancy Table, which could result in significantly lower RMDs.
Elimination of the "Stretch IRA"	The SECURE Act has eliminated the ability for non-spousal beneficiaries of retirement accounts to take RMDs over their lifetime. Non-eligible designated beneficiaries must now deplete the IRA or retirement account within 10 years of the account owner's passing.	Review beneficiary designations on all of your retirement accounts and determine whether naming a spouse or another eligible designated beneficiary is in line with your estate planning objectives.

[2] Employees who are 5% owners of the business must begin their RMDs by April 1 following the year they turn 72.

Tax Planning		
Topic	**Explanation**	**Action**
Tax Loss Harvesting	Tax loss harvesting is a strategy of selling certain investments at a loss in order to offset capital gains elsewhere in your accounts. This offers the potential for maximizing the dollars working for you from a tax and investment perspective.	Tax loss harvesting only applies to taxable investment accounts. Work with your team of professionals to ensure that you do not run afoul of wash-sale rules and that tax loss harvesting fits within your investment goals.
Annual Gift Exclusion	Taxpayers may give up to $15,000 in 2021 to as many recipients as desired without reducing the lifetime gift and estate tax exemption.	If you plan to use your annual gift exclusion, you must do so by December 31, 2021. The annual gift tax exclusion does not roll over into the following year, so it is a use-it-or-lose-it opportunity.

Coordination of Gain Realization and/or Loss Harvesting With Grantor Trusts

Grantor trusts present a great opportunity when looking at year-end gain recognition and/or loss harvesting. A grantor trust is taxed to the grantor for income tax purposes even though it may be outside of the grantor's estate for estate tax purposes. Work with your advisor to coordinate gain recognition and loss harvesting across your taxable accounts as well as grantor trusts.

Tax Planning continues on next page.

Tax Planning (continued)		
Topic	**Explanation**	**Action**
Reversal of Kiddie Tax to Pre-Tax Cuts and Jobs Act (TCJA) Rules	The SECURE Act reversed the Kiddie Tax rules to pre-TCJA law. A child's unearned income above a certain amount will now be taxed at the parent's marginal rate instead of being taxed at trust tax rates, which are highly accelerated. Taxpayers can make a retroactive election for these rules to apply to tax year 2018, 2019 or both. This could result in a refund if the reinstatement of the old rules results in a lower tax liability.	Speak with a tax advisor to determine if it is beneficial to amend your prior tax returns.
Qualified Opportunity Funds (QOFs)	The deadline to invest in a QOF and qualify for a 10% gain exclusion is December 31, 2021.	Invest in a QOF by December 31, 2021, in order to receive a 10% gain exclusion.
Non-Grantor Trusts 65-Day Income Distribution Rule	This allows a trustee to make an election to treat some distributions paid within 65 days after the close of the trust tax year as if they were paid on the last day of the previous tax year.	An irrevocable election must be made on the tax return. Work with your accountant to determine whether your distributions are eligible and if this strategy would benefit you.

Using 529 Plans to Avoid the Kiddie Tax

While UTMA/UGMA accounts are great vehicles to save money for children, income in such accounts in excess of a certain threshold is taxable at the parent's marginal rate. In addition, the child is able to access the funds upon reaching the age of majority. If the goal is to save money for higher education, consider contributing the same funds to the child's 529 plan. This would allow for tax-deferred growth and tax-free distributions if the money is used for qualified higher education expenses.

Income Considerations		
Topic	**Explanation**	**Action**
Insurance Coverage	Births, deaths, marriage, divorce, etc., may affect beneficiary designations and the type and amounts of coverage recommended.	If you have experienced a life event, speak with your professional advisors to have an insurance audit completed to review beneficiary designations, coverage and policy structure to determine if any changes need to be made.

Income Considerations continues on next page.

Income Considerations (continued)		
Topic	**Explanation**	**Action**
Permanent Insurance – Policy Review	The performance of permanent insurance can be impacted over time due to insurance carrier dividend rates and underlying investment allocation.	Ask your insurance professional to run an in-force illustration to ensure the policy is performing in relation to the illustrated values and determine if the policy continues to meet your needs.
Insurance Held in an Irrevocable Life Insurance Trust (ILIT)	When making gifts of premiums for life insurance held in an ILIT, Crummey notices may be required to be sent to all beneficiaries of that trust.	Confirm with the trustee of your ILIT that all annual Crummey letters have been sent to beneficiaries.

1035 Life Insurance Exchange

Tax law allows individuals to do a tax-free exchange of their current life insurance policy for a new policy, if certain requirements are met. If you currently own a policy that is underperforming, or if current pricing allows for a lower premium or a higher death benefit, consider a 1035 exchange.

Philanthropic Considerations		
Topic	**Explanation**	**Action**
Charitable Deductions Made by Individuals	The Consolidated Appropriations Act extended the CARES Act provision, which allows individual taxpayers who claim the standard deduction a $300 above-the-line deduction ($600 for married couples) on qualifying cash donations to certain public charities through 2021. Taxpayers don't need to itemize their deductions in order to benefit from this.	Donations must be made in cash directly to the charitable organization by December 31, 2021.
Can Deduct up to 100% of Adjusted Gross Income (AGI) for Cash Donations in 2021	The 60% AGI limitation on qualifying cash donations to certain public charities has been suspended for 2021. In 2021 only, you are able to deduct up to 100% of AGI for cash donations made directly to a public charity.	If you itemize your deductions and are planning to make cash donations, consider gifting directly to the charitable organizations by December 31, 2021, to maximize your deduction. This increased limit does not apply to grants made through a donor-advised fund.
Qualified Charitable Distributions (QCDs)	Even though the new age for RMDs under the SECURE Act is 72, individuals can still make QCDs out of their Traditional IRAs upon turning age 70 ½. You can contribute any amount up to $100,000 from your IRA directly to a public charity. For those age 72 or older, the amount of the QCD counts toward their RMD. Under the SECURE Act, any deductible contributions made to a Traditional IRA after age 70 ½ will reduce the tax-free portion of the QCD to the extent it was not previously used to offset an earlier prior-year QCD.	If you are age 70 ½ and charitably inclined, speak with your team of professionals to determine if donating a portion of your retirement account directly to a 501(c)(3) charity fits into your overall planning.

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Business Planning		
Topic	**Explanation**	**Action**
Paycheck Protection Program (PPP) Loans and Ownership Control	If you received funds from a PPP loan, changes in ownership or control are subject to approval by the lender and the SBA.	Report changes to ownership or control, including sales and mergers to your lender. Consent from the lender and the SBA is required. It is not automatic and may be denied.
Modifications for Net Operating Loss (NOL) Deductions	The CARES Act reinstated loss carrybacks that arose in tax years 2018–2020, which can be carried back up to five years. In addition, the 80% of taxable income limitation was also eliminated for 2018–2020.	If you have net operating losses in those years, speak with your accountant to determine if you qualify to amend your prior tax returns for any potential meaningful tax refund possibilities. Businesses may use NOLs they have to fully offset their taxable income in carryover years.
Qualified Business Income (QBI) Deduction	Real estate professionals may be able to claim up to a 20% deduction on qualified business income. Taxpayers are required to maintain separate books and records for each rental real estate activity and perform 250 hours or more in rental services for each activity.	Rules are quite complex and require contemporaneous records documenting hours of service, services performed, dates of service and who performed the services. Work with your team of professionals to determine whether your business qualifies.

Refund Season

The Consolidated Appropriations Act, SECURE Act and the CARES Act have many provisions that may allow taxpayers to amend prior-year tax returns in order to claim a refund. Work with your tax advisor to review your prior-year returns and to determine whether you qualify for any tax breaks.

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Authored by Advanced Planning Team, First Republic Investment Management, in October 2021.

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